Y 4.B 85/3:In 8

INTERNATIONAL TRADE AND THE FEDERAL DEFICIT

COMPLETED
127.

ORIGINAL

HEARING

BEFORE THE

TASK FORCE ON ECONOMIC POLICY

OF THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

OCTOBER 19, 1985
IRVING, TX

Serial No. 2-2

Printed for the use of the Committee on the Budget

U.S. GOVERNMENT PRINTING OFFICE
55-751 O WASHINGTON : 1986

COMMITTEE ON THE BUDGET

WILLIAM H. GRAY III, Pennsylvania, *Chairman*

JIM WRIGHT, Texas
W.G. (BILL) HEFNER, North Carolina
THOMAS J. DOWNEY, New York
MIKE LOWRY, Washington
BUTLER DERRICK, South Carolina
GEORGE MILLER, California
PAT WILLIAMS, Montana
HOWARD WOLPE, Michigan
MARTIN FROST, Texas
VIC FAZIO, California
MARTY RUSSO, Illinois
ED JENKINS, Georgia
MICHAEL D. BARNES, Maryland
MARVIN LEATH, Texas
CHARLES E. SCHUMER, New York
BARBARA BOXER, California
BUDDY MacKAY, Florida
JIM SLATTERY, Kansas
CHESTER G. ATKINS, Massachusetts

DELBERT L. LATTA, Ohio
JACK F. KEMP, New York
LYNN MARTIN, Illinois
BOBBI FIEDLER, California
WILLIS D. GRADISON, Jr., Ohio
TOM LOEFFLER, Texas
CONNIE MACK, Florida
WILLIAM F. GOODLING, Pennsylvania
W. HENSON MOORE, Louisiana
DENNY SMITH, Oregon
VIN WEBER, Minnesota
HANK BROWN, Colorado
BEAU BOULTER, Texas

TASK FORCE ON ECONOMIC POLICY

MIKE LOWRY, Washington, *Chairman*

WILLIAM H. GRAY III, Pennsylvania
JIM WRIGHT, Texas
BUTLER DERRICK, South Carolina
MARTY RUSSO, Illinois
MARVIN LEATH, Texas
CHARLES E. SCHUMER, New York
BUDDY MacKAY, Florida

DELBERT L. LATTA, Ohio
JACK F. KEMP, New York
LYNN MARTIN, Illinois
WILLIS D. GRADISON, Jr., Ohio
TOM LOEFFLER, Texas
CONNIE MACK, Florida
HANK BROWN, Colorado
BEAU BOULTER, Texas

KIMBERLY C. PARKER, *Task Force Director*
DAVID BLEY, *Task Force Associate*

CONTENTS

Statement of:

Page
Blackwood, Tom, interim director, Mid-America Trade Adjustment Assistance Center 15
Chapman, Hon. Jim, a Representative in Congress from the State of Texas 10
Chenoweth, James W., manager, international trade affairs, Lone Star Steel Co 101
Clowers, Early, Houston, TX 52
Goodman, William E., mayor, Miami, OK 57
Lewis, Jimmy, president, Local 218, International Union, United Aerospace and Agricultural Implement Workers of America, Hurst, TX, accompanied by Steve Beckman, UAW Washington office 97
Mahan, Phil, executive vice president, Amber Refining, Inc., Abilene, TX 72
Meagher, John K., vice president, government relations, the LTV Corp 27
Pitts, L. Frank, president, Pitts Oil Co., Dallas 41
Quintanilla, Nilda, textile worker, McAllen, TX 68
Rhoades, Lawrence J., president, Extrude Hone Corp., accompanied by James Mack, public affairs director, National Machine Tool Builders Association 63
Weiler, H.J., vice president, governmental affairs, Association of Commerce and Industry of New Mexico, Albuquerque, NM 78

Additional material submitted for the record by:

Amalgamated Clothing and Textile Workers' Union, prepared statement on its behalf by Joan Suarez 111
Blackwood, Tom, prepared statement 18
Chenoweth, James W., prepared statment 104
Clowers, Early, prepared statement 54
Goodman, William E., prepared statement 59
Kitchens, William, director, United Rubber Workers, District No. 3, AFL-CIO, letter re plant closures in tire industry dated October 18, 1985, with enclosures 113
    Enclosures:
        Plant Closings, from the URW International Union 114
        More Upheavels Predicted for Nation's Tire Industry, from the Akron Beacon Journal, September 30, 1985 116
        Table entitled URW Union, Tire Plant Closings, 1973 to Present (United States) 114
Lewis, Jimmy, prepared statement 99
Mahan, Phil, prepared statement 75
Meagher, John K., prepared statement 32
Pitts, L. Frank, prepared statement 44
Quintanilla, Nilda, prepared statement 70
Suarez, Joan, district manager, San Antonio Joint Board, ACTWU, prepared statement on behalf of the Amalgamated Clothing and Textile Workers' Union, AFL-CIO 111
Weiler, H.J., prepared statement 83

Wright, Hon. Jim, charts submitted entitled:

Total Budget Deficits by President Roosevelt to Reagan 5
Deficits: Cyclical and Structural Components CBO Projections (August 1985) 6
Budget Deficit and Trade Deficit 7
Merchandise Trade Balance 8
Deterioration in Trade Widespread Among All Key Sectors Since 1980 9

INTERNATIONAL TRADE AND THE FEDERAL DEFICIT

SATURDAY, OCTOBER 19, 1985

House of Representatives,
Task Force on Economic Policy,
Committee on the Budget,
Irving, TX.

The task force met, pursuant to notice, at 9:01 a.m., in Convention Room A, Holiday Inn-South, Irving, TX. Hon. Mike Lowry (chairman of the task force) presiding.

Mr. Lowry. I would like to call the field hearing of the Budget Committee's Task Force on Economic Policy to order.

My name is Mike Lowry and I am chairman of the Task Force on Economic Policy of the Budget Committee. First, on behalf of the committee, I would like to thank the people of Fort Worth-Dallas for their excellent hospitality and warmth that they have shown us as we have come down to this important meeting. I would like to thank our host, in whose district we sit, Martin Frost, a valued colleague of ours, a member of this committee as well as the Rules Committee; and who is our host here in the district. And the majority leader, Jim Wright, who is our super host here; who brought us down to Texas. Yesterday, we went to Carswell and to General Dynamics, and today we will be looking at this very critical question of trade policy in this country, what it is doing to the industrial base in our country, and what it is doing to the employment and the economy in our country.

So we appreciate everybody very much for coming. I would like to first recognize our ranking minority member, a gentleman from New York, Sherwood Boehlert, who is joining us today.

Mr. Boehlert. Thank you very much, Mr. Chairman.

I think it is very important what we are doing here this morning. Too often, we spend too much time in Washington, which I view as 25 miles of geography surrounded by reality. It is important that we get out and have this type of field hearing. It is very important that we listen; that is how we learn the most. So I am looking forward to this hearing this morning.

We have a very distinguished list of witnesses, Mr. Chairman, and I am anxious to proceed with it.

Mr. Lowry. Thank you, Mr. Boehlert.

I would like to now turn the microphone and chair over to the honored majority leader of the U.S. House of Representatives, the next Speaker of the U.S. House of Representatives, Jim Wright.

Mr. WRIGHT [presiding]. Thank you very much, Mr. Chairman. Thank you for coming to this Dallas and Fort Worth area.

The purpose of this hearing is to examine America's very serious and growing trade deficit problem, particularly as it affects the Southwestern part of the United States. This is not just a problem of the Rust Belt. This problem has reached to the Sun Belt, and there is no part of America that is immune to the problems inflicted upon our economy by the growing trade deficit.

Everywhere we look, as this map indicates, we see thousands of workers losing their jobs to imports. We see U.S. businesses being shut out of foreign markets by unfair barriers. We see a steady increase of foreign ownership of America's means of productions; and we see our economy going into hock to foreign powers, now owing more abroad than is owed to us by foreigners.

America wants to be No. 1 in world leadership, not No. 1 in world debt. We would like to sell computers to other countries, not shares of ownership in IBM. We need to see more American farm commodities; we do not need to be selling more acres of America's farmland to foreigners.

As a member of the House Budget Committee, I certainly welcome Mike Lowry of Washington, the chairman of this task force, and the eagerness of this committee to begin this Economic Policy Task Force set of hearings. It is appropriate, I think, for us as members of the Budget Committee to focus on the ways in which the budget deficit and the trade deficit feed upon one another.

By raising real interest rates, the budget debt drives up the price of the dollar and, thus, it acts as a hidden tax on U.S. exports. The inflated dollar makes American exports prohibitively expensive in foreign currencies and foreign goods seductively attractive in dollars. And high interest rates also make it that much harder for our American companies to finance the new investments that are necessary in plant modernization.

The linkage works the other way, too, of course. With a projected trade deficit of $150 billion, that tends to feed the budget deficits. As thousands of plants are closing, hundreds of thousands of highly skilled, high wage manufacturing jobs are being replaced by low wage service jobs. Those trends aggravate the budget deficit by both decreasing the income tax revenue and increasing the necessary outlays for counter-recession measures.

Consider these three examples. In 1979, foreign suppliers controlled 15 percent of the U.S. market in steel. By 1984, that foreign share was 26 percent. For TV's and radios, the foreign share rose from 43 percent in 1979 to a little more than 60 percent. For telephone equipment, the foreign share jumped from 7 to 21 percent; three times. And it is estimated that today, approximately 30 cents out of every dollar paid by an American consumer for manufactured goods goes abroad.

In addition to the economic dimensions of this trade deficit problem, I think there are also important national security considerations. In the past 4 years, 235 domestic oil refineries—more than half of the domestic refineries in the United States—have shut down. And now we depend upon foreign countries not just for crude oil but also for refined petroleum products. In March 1983, 2½ years ago, the machine tool industry filed a petition asking for import restrictions tied to national security needs. But, for some reason, no action has been taken on that petition. If this trend of deindustrialization should continue, then America's mobilization base, in case of an emergency, could be seriously impaired.

During the course of this hearing, we hope that our witnesses will be able to help us diagnose the problem and propose some constructive solutions. We want to collect information on how the present trade patterns are affecting our industries, our small businesses, our work force, and our society itself. We hope to learn more about the causes for the decline in our competitiveness.

The task force would also like your views on what Congress should be doing about these problems. First, how can we get foreign governments to follow the rules of fair trade? Second, how can the United States promote industrial competitiveness, modernization, and improved productivity in an economically efficient manner in our own country? And, third, how do we strengthen programs for displaced workers, like trade adjustment assistance?

How do we do these things in such a way as to strengthen free trade, not weaken it, but by making it fair trade as well?

We look forward to exploring these and other problems in our hearing this morning.

I think, Mr. Chairman, for the benefit of our audience and our witnesses, it would be useful to introduce our guests, our members of the panel. We are grateful that they have come all the way to Texas for this hearing today.

On my right, your left, Wes Watkins, a member of the Appropriations Committee, and vitally interested in agricultural facets as well as other facets of the trade problems. Next to him, Bill Alexander, a member of the Appropriations Committee, from a neighboring State, Arkansas, a leader in trade matters. You have already acknowledged the presence of the Congressman from this district in which these hearings are being held, a member of the Rules Committee of the House, Martin Frost. On our chairman's left is Mr. Boehlert from New York, the ranking minority member of this group, a forward looking, an extremely energetic supporter of America's economic posture in the world.

Dick Gephardt of Missouri, member of the Ways and Means Committee, which has jurisdiction over most trade and tax legislation, chairman of the Democratic caucus of the House, and one of the leading Members of our House. And on the extreme end is Stan Lundine of New York. Mr. Lundine is a member of the Committee on Banking and Currency and Merchant Marine, and is one of the leading exponents of efforts to cure this trade deficit problem.

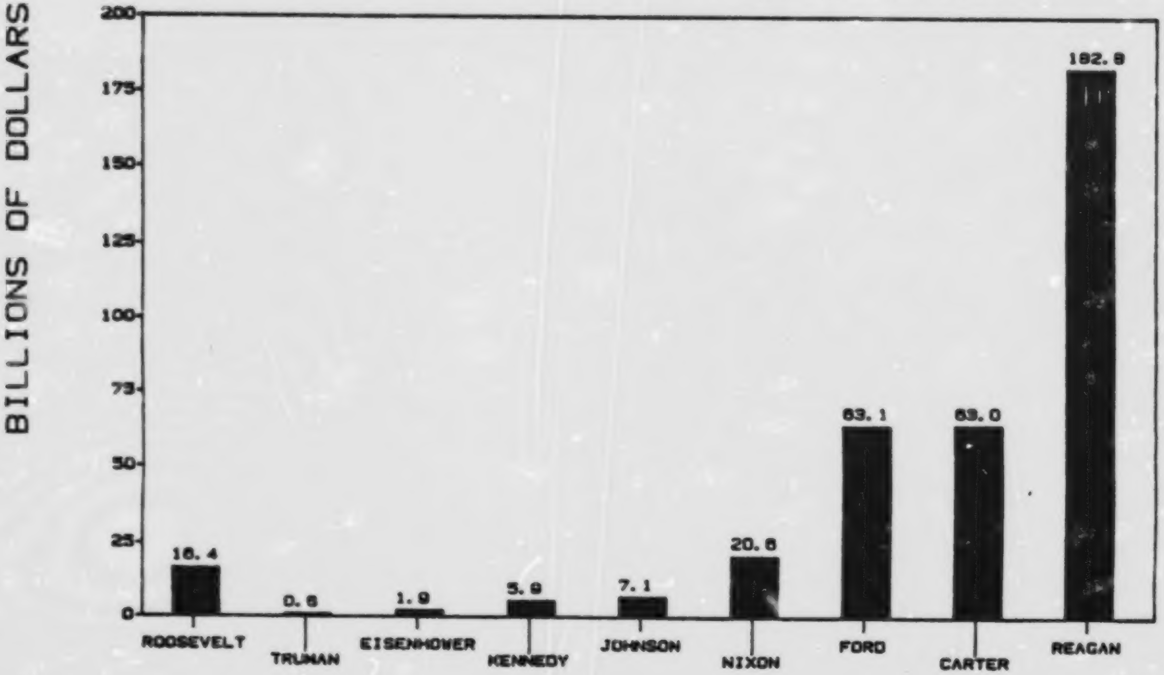
We are fortunate today to have with us a colleague, the newest Member of the Congress, from our adjoining area in east Texas; from an area, incidentally, which has been affected by trade adjustment problems. He has been out there close to the people, close to the problems. Sometimes those of us in Congress discover that the person most recently elected by the people themselves often reflects a closer feel of the public pulse and the immediacy of the public problems.

So, as our first witness today, we are honored to have Hon. Jim Chapman, one of our colleagues, newly elected in a special election to represent that district in east Texas.

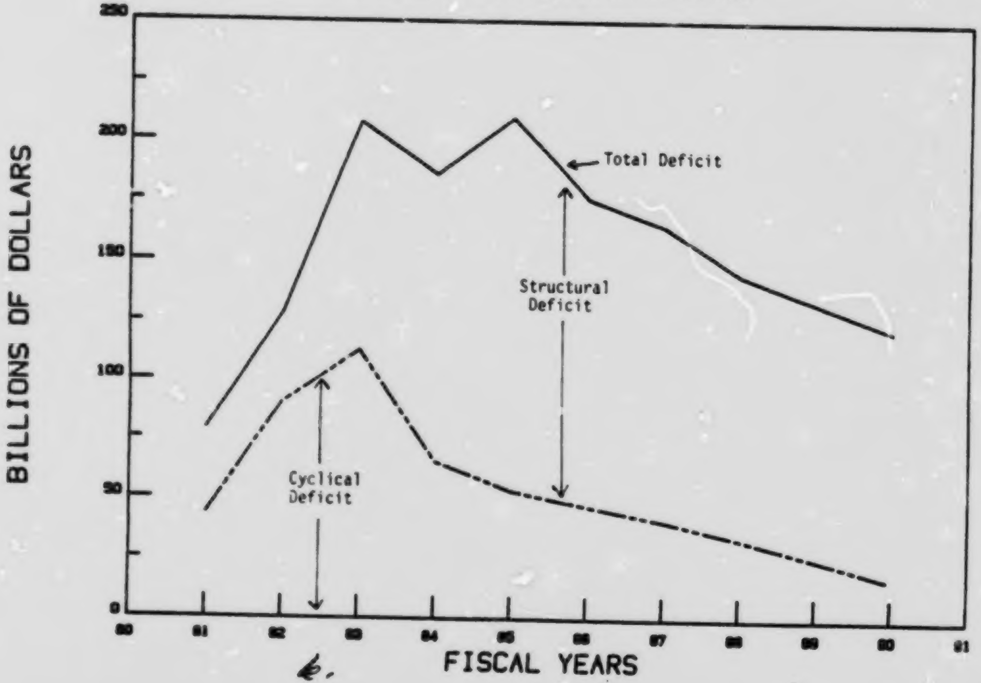
Mr. Chapman, we welcome you and are anxious to have your advice and counsel and your appraisal of this problem, and anything that you think we need to hear.

[The following charts were submitted for the record by Mr. Wright:]

TOTAL BUDGET DEFICITS BY PRESIDENT
ROOSEVELT TO REAGAN
(AVERAGE ANNUAL DEFICIT, $ BILLIONS)

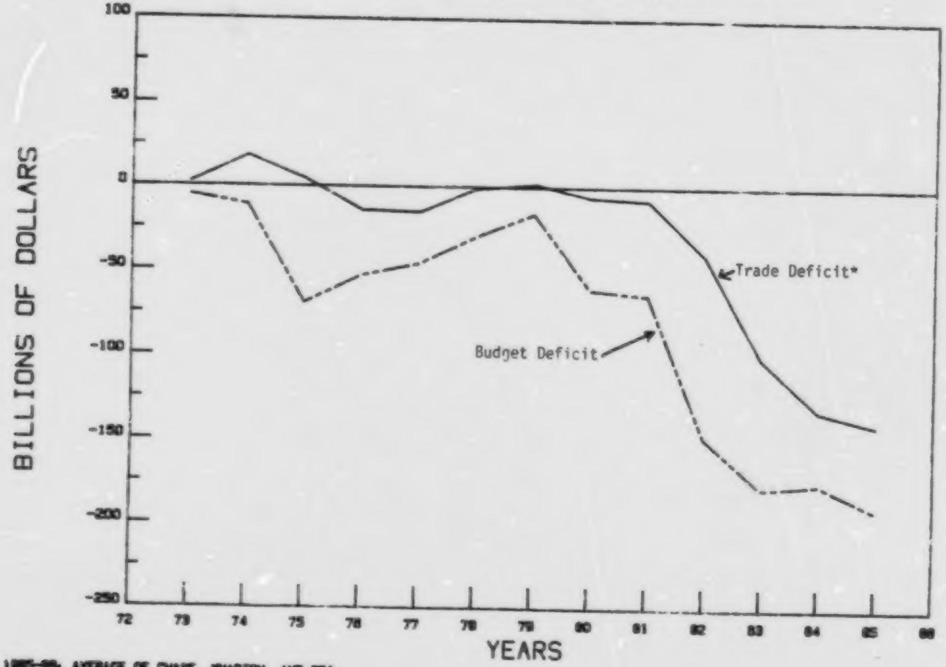


DEFICITS: CYCLICAL AND STRUCTURAL COMPONENTS
CBO PROJECTIONS (AUGUST 1985)
(FISCAL YEARS, $ BILLIONS)



6.

BUDGET DEFICIT AND TRADE DEFICIT
(BILLIONS OF DOLLARS)



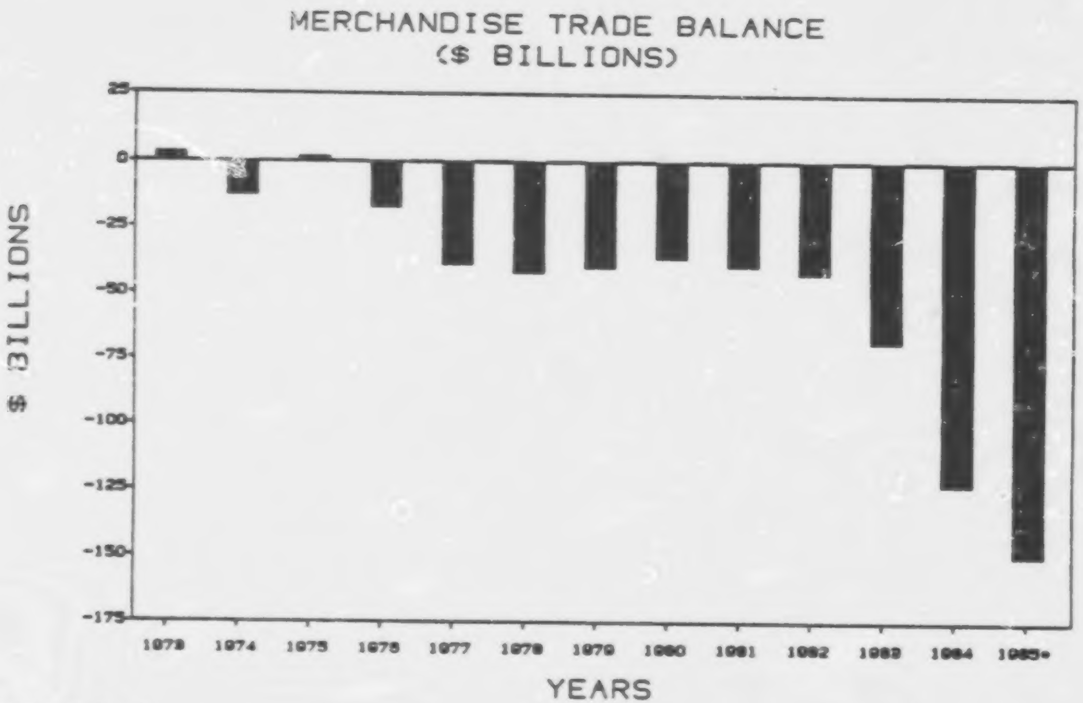
1985-86: AVERAGE OF CHASE, WHARTON, AND DRI.

*Trade deficit on a current account basis in the following year.

BLANK PAGE

BLANK PAGE

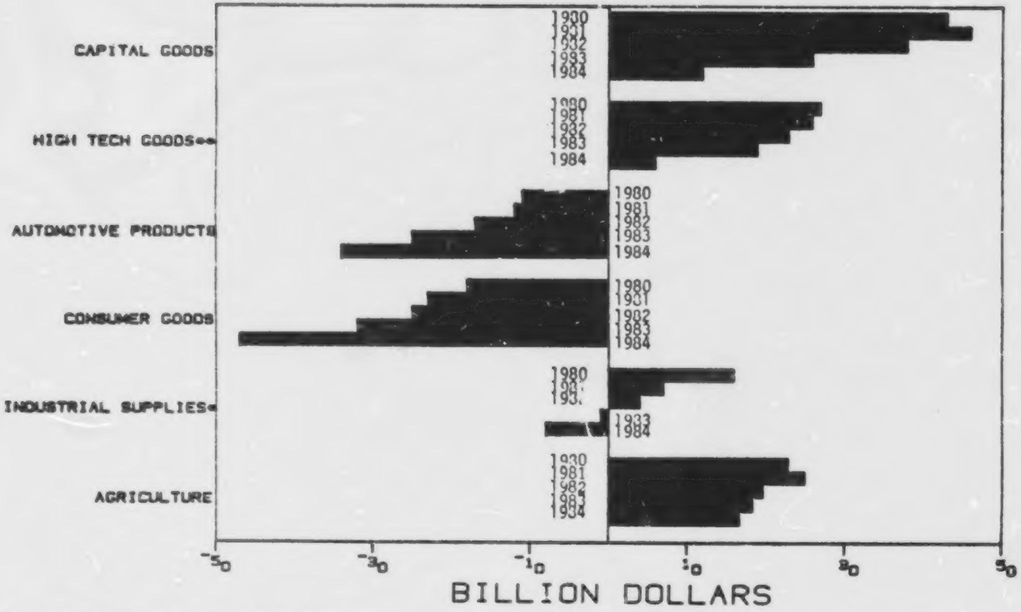
BLANK PAGE



EXPORTS: f.a.s.
IMPORTS: c.i.f.
* Estimate

DETERIORATION IN TRADE WIDESPREAD AMONG ALL KEY SECTORS SINCE 1980

(TRADE BALANCES, 1980 TO 1984)



** AS DEFINED BY THE COMMERCE DEPARTMENT
* EXCEPT OIL

9.

STATEMENT OF HON. JIM CHAPMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Chapman. Mr. Majority Leader, I appreciate your comments and I appreciate the opportunity to come and share with my distinguished colleagues some thoughts and perspectives on what I have found as the newest Member of the Congress, based on the campaign trail this past summer in east Texas. I appreciate the opportunity to be here and I look forward to joining this panel at the conclusion of my testimony.

There can be no question, as we all know, that the United States is facing a trade crisis. We have had a trade deficit in all but the last 2—2 of the last 15 years, setting a record in each of those years, and we will again set a record in 1985. We are now a debtor nation for the first time since 1914, and we will owe over $1 trillion by 1990 if the present trend continues. The result will be slower economic growth, a less expansive and possibly declining standard of living for all Americans.

I agree with the President that the United States must export more goods, not more jobs. That the President's proposal to provide $300 million in export subsidies and a short-term effort to bring the dollar back into line with its value is simply not enough to counter the massive trade challenges that we face in this country today. The terrible trade imbalance results not only from unfair practices by our trading partners, but also from long-term problems such as high interest rates, budget deficits, and an overvalued dollar. All these problems must be aggressively attacked and we must buy time while we correct them in order to preserve America's economic base. The President's new program will do our economy no good if America's industries are decimated in the meantime.

All of our tough talk on trade will be meaningless if our trading partners continue to believe that we are bluffing. We must put our trading partners on notice that we will no longer accept enormous trade deficits and the resulting erosion of our manufacturing base.

I have cosponsored but a handful of bills in the Congress since I have been there. But one of the most important is the Bentsen-Gephardt proposal to set a trade ceiling on nations with a history of barriers to our products and excessive trade surpluses with us, forcing our trading partners to dismantle their barriers to free trade, would be the goal of that legislation. The intent is not to close American markets, but to open up those foreign markets that are barring American goods today.

The first bill that I have authored and introduced in the Congress is one that would amend the President's Steel Import Restriction Program. As representatives of Lone Star Steel, which is located in my district, will make clear in testimony today, the trade picture for the U.S. steel manufacturers has worsened since the President's program was put into effect 13 months ago. My legislation, H.R. 3459, will put teeth into the President's program and hopefully result in it actually achieving its goals.

The President's program aims at reducing overall steel import penetration of the U.S. market to 18½ percent total steel consumption. But in the first 6 months of this year, 13 million tons of steel, or 26 percent of the U.S. market was shipped to the United States compared to 12.5 million tons, or 24.2 percent for a similar period in 1984 before the program even began. Imports are rising despite the President's Steel Import Restriction Program.

One important reason for the increase in import levels is that countries that are not covered by the program have stepped up their steel exports to the United States filling the voids in the market left by the countries subject to restraint agreements. While 14 nations have now entered voluntary restraint agreements limiting steel imports, some 62 other countries have stepped in to fill the void created by those reductions. My legislation will cure this inequity by making all nations subject to restraints in steel exports.

The 14 countries now covered by bilateral agreements have reduced their steel exports to the United States to approximately 70 percent of the level exported in 1984 prior to the announcement of the program. My bill would limit all countries to that same 70 percent level, striking an appropriate balance between protecting our steel industry and allowing a reasonable level of foreign steel imports.

The good news: The proposal has already had some positive effects although it has just been introduced a couple of weeks ago and sent to the Ways and Means Committee. Ten days ago, representatives of the Austrian Government came to the trade negotiations of America and voluntarily began negotiations with the U.S. Office of the Trade Representative to seek an agreement limiting their exports of steel to the United States. We have been advised by that office that one of the reasons cited by the Austrians was the potential for new restrictions on noncovered nations, as included in my bill. I commend the Austrians, but they are 1 one of 62 countries. I am going to continue to push the legislation in order to buy time necessary for our steel industries to compete.

Earlier this week, I met with representatives of the two largest steel manufacturers of the country of Canada, and talked to them about this same matter; another country not covered by the bilateral agreements. Those representatives are concerned and are now moving toward voluntary restraint agreements with this country.

I think that measures such as Bentsen-Gephardt, measures such as the legislation that I have introduced will all help in bringing to the attention of our foreign trading partners that the United States will no longer tolerate the kind of import restrictions that we see to our goods overseas, in light of the fact that we have provided free and open access to American markets. As the newest Member of Congress, I can tell you, having been on the campaign trail, the people in the First Congressional District of Texas are concerned about what they conceive to be a noncaring Government when it comes to the loss of their jobs.

While none of us want to see measures become protectionist, the people in my congressional district would like to see me and my colleagues enact such legislation as will at least stop the hemorrhage of jobs in this country, until we can address those critical needs and those areas that are the long-term root of the problem; the needs of the deficit balancing this budget, doing something about an overvalued dollar, to make American industries competitive again in world markets.

I appreciate the opportunity to be here today to express these views with you. I share with you your concern and your interest in exploring the answers of where we can go from here in an effort to develop the solutions to what is an enormous problem in the United States of America.

Thank you, Mr. Wright, for this opportunity.

Mr. WRIGHT. Thank you for an excellent statement, Mr. Chapman.

Are there questions that any of the members would care to ask? Mr. Gephardt.

Mr. GEPHARDT. Thank you, Mr. Leader.

Mr. Chapman, you made an excellent statement and I appreciate it very much.

I would like to ask your own experience in your own district with loss of jobs related to trade, and whether or not it is confined to older industries, like steel, where we have had problems all across the country; or are there other industries where you are seeing jobs lost because of world trading problems?

Mr. CHAPMAN. Mr. Gephardt, I appreciate the question because the loss of jobs in my district goes across the board, from the oldest industries to the newest; from heavy manufacturing to high technology. Lone Star Steel is one of the examples that we cited, a company which just 2 years ago laid off over 4,000 workers. That company has not yet recovered from those layoffs, caused directly by the dumping of imported steel products in the American market.

During my campaign for the Congress, AT&T in Shreveport, LA, which is a major employer, cut a third of the employees working in my district; laid off 2,000 workers. We were told at the time of the layoffs that those layoffs were the result of AT&T rebuilding that facility in Singapore.

B&W, Babcox & Wilcox in Paris, TX, also in my district; one of the country's largest boiler makers, employed 2,400 just a little over 2 years ago. Employment is down to 700. We are told that B&W is rebuilding that boilermaker facility in Korea.

These kind of experiences, and they go down to the small businesses as well. Tacoma Industries in Texarkana, layoffs of 180. All directly related to problems in the oil patch. In the First Congressional District of Texas, the problem is a major problem. It extends from high income jobs to the lowest jobs. It extends from heavy manufacturing to high technology. It is a real problem that I hope this Congress, this committee, and this panel can address. But it is a major problem in east Texas, and I suspect nationwide.

Mr. GEPHARDT. Thank you very much.

Mr. WRIGHT. Mr. Frost.

Mr. FROST. I appreciate your excellent statement. I think that people need to understand that, of course, this problem affects directly all parts of our State. It has dramatically affected your district with Lone Star Steel. But right here in the Dallas-Fort Worth area, just within the last 2 days, the announcement was made that Mostek Corp. in Carrollton, TX is closing its operations. Mostek, within this calendar year, will have laid off a total of 10,000 people worldwide. The most recent announcement involved 2,500 people here in this immediate area. And this is truly a problem of major proportions that affects all parts of the State of Texas and is not a problem that is simply occurring somewhere else in another part of the country. It is not a problem that is unique to the Midwest or to the Northeast; it is a problem that has struck home very hard in your district in east Texas and in the remainder of this State.

Mr. **Chapman**. And let me add, Congressman, that in addition to the manufacturing jobs that are lost, in my district as well as throughout Texas, it is affecting our agricultural economy as well. And while you still see people falling off a payroll, per se in that area, what you see is massive and numerous foreclosures in the area of farm economy. This problem encompasses the manufacturing sector, the high technology sector, and the agricultural sector as well.

Mr. **Wright**. Mr. Alexander.

Mr. **Alexander**. Mr. Chairman. And thank you very much, Congressman Chapman, for your excellent statement. There is a chart which is presented in front of the dais and will be explained, I am sure, in detail later. But I could not help but notice that your district is not the only part of Texas that is affected, and some 55,000 workers have been laid off as a direct result of foreign imports.

In my own State of Arkansas, approximately 17,000 workers have been displaced by foreign imports. In my hometown of Oceola, AR last year, about this same time, in October, two textile mills were closed down because of imported textiles from foreign countries. One year later, the 800 to 900 employees that lost their jobs in Oceola factored into the local economy—a city of about 10,000 people—to affect the income on Main Street by a loss of about 40 percent of the gross income. Now, that adds up to a decline in the standard of living, not only the displaced workers, but also the merchants on Main Street and the people who are dependent upon local manufacturing for their source of income.

My question to you, Congressman, is what happens to people who are displaced, who are laid off by unfair competition from abroad? Do they get other jobs; and if they receive other jobs, are they employed at the same wage rate that they previously experienced, or do they, too, experience a decline in the standard of living? And, if so, how much?

Mr. **Chapman**. Congressman, I appreciate the chance to address that question because my experience I think that most directly relates to your inquiry is Lone Star Steel.

A little over 2 years ago, when that fine company laid off over 4,000 workers, there were no places for those steelworkers to go in east Texas to find or obtain a job even remotely close to what they were doing. The standard of living dropped enormously. The income to the region, a multicounty region, dropped enormously. Those jobs could not be replaced anywhere else in the sector. And those workers, many of them were in a catch-22. They had not the economic resources to relocate. So moving to places—and it is a simplistic answer many times to say, well, if there is not a job in Lone Star, TX, then move to Dallas, TX or Houston, TX. It is not that easy, as we are all aware.

Those kinds of tragedies that occur do because there has been an unresponsive policy in the import and trade area. Those things catch families in a situation where they are unable to relocate. They have not the resources to change sites and move their families. It is of tremendous impact not only to the family, but to the entire area. Those jobs cannot be replaced, and certainly not at the level where the family had maintained itself.

What, of course, results is an enormous decrease in the quality of life not only for the family involved, but for the entire economic area because there are indirect losses as well to all the surrounding businesses—shops, stores, retail, and otherwise, in areas where this impact occurs.

Mr. **Alexander**. Our Trade Committee learned this week in Boston that people in that region who were displaced by foreign competition, by foreign imports, were generally earning about $12 an hour before they were displaced. And after a period of adjustment they found other jobs, usually in the service industry at a much lower rate, approximately at $4 an hour. Do you find a similar experience in your congressional district that we have learned about in Boston?

Mr. **Chapman**. I think that that would be a very accurate estimate; precisely what has occurred in my congressional district by reason of the displacement of these jobs.

Mr. **Alexander**. So the new jobs that we hear that are created—and some oftentimes recite proudly as a result of current policies—are new jobs that pay about 75 percent less than the previous jobs that they held.

Mr. **Chapman**. I think that would be an accurate statement, Congressman.

Mr. **Alexander**. Thank you very much.

Mr. **Wright**. Are there any other questions? Mr. Watkins.

Mr. **Watkins**. I would like to make a comment, that I think, Congressman Chapman, your very election probably has done as much as anything in sending the message across this country that trade is something that needs to be dealt with and that we need to try to make some corrections in the policies that have brought about a 40-percent overvalued dollar since 1981. And I think your mere presence here today and the fact that you were elected Congressman from that district, on the trade issue, has spelled this out very clearly. So, thank you for being here.

Mr. **Chapman**. Thank you, Congressman.

Mr. **Wright**. Our next witness is Tom Blackwood, the interim director of the Mid-American Trade Adjustment Assistance Center in Little Rock, AR.

Mr. Blackwood is taking his place there at the witness station. I think it might be worth pointing out to those who are not fully familiar with the Trade Adjustment Assistance Program to tell you that it is the only existing program out of Government that is directly aimed at trying to relieve the problems created by the trade imbalance and the growing trade deficit.

Mr. Blackwood, you are directing the Mid-American Trade Adjustment Assistance Center, it being located in Little Rock. How many such centers are there in the United States?

Mr. **Blackwood**. There are a total of 13 altogether, serving the continental United States and Puerto Rico.

Mr. **Wright**. You may proceed in any manner that you wish. I know that you have some information that should be very enlightening to us.

STATEMENT OF TOM BLACKWOOD, INTERIM DIRECTOR, MID-AMERICA TRADE ADJUSTMENT ASSISTANCE CENTER

Mr. BLACKWOOD. Thank you, Mr. Chairman.

I am Tom Blackwood, representing the Mid-America Trade Adjustment Assistance Center, which is a division of the University of Arkansas at Little Rock, which is our host institution. I might add that any views that I express today are entirely my own and do not necessarily reflect the views of the Department of Commerce or the administration.

I appreciate the opportunity to talk with the Task Force on Economic Policy. And my comments will be centered around the impact of imports on U.S. manufacturers and the network of Trade Adjustment Assistance Centers for manufacturing firms. I will directly address the second point made by Congressman Wright that the purpose of this is what assistance can be rendered to American firms to make them more competitive and to stabilize the jobs involved in U.S. manufacturing firms.

The trade balance, as we all know, has gone from a positive position a few years ago to a negative position. This has resulted in a loss of jobs in all sectors of the economy. It has not affected just one sector, but all sectors; even those sectors which are capital intensive and which once had a competitive advantage. That competitive advantage has disappeared. Even in high technology, which as recently as 1981, enjoyed a surplus of $26 billion. That surplus has diminished to $6.2 billion in 1984. That is an area where we enjoyed a strong competitive advantage. It can be said that really there is no sector of the American economy that is immune from severe competition from foreign made goods.

The impact of imports has necessitated numerous structural changes in the economy of the United States and in the firms composing that economy. New technologies have been developed and applied that have permitted mature industries to remain competitive. The application of new technologies has saved many manufacturing jobs that otherwise would have been lost.

This is where the Trade Adjustment Assistance network makes its contribution to the competitiveness of U.S. manufacturers. Under title 2 of Public Law 93-618, the Trade Act of 1984, the International Trade Administration and the Office of Trade Adjustment Assistance, acting for the Department of Commerce, provides technical assistance to import impacted firms and industries in an effort to assist these firms to increase their competitive position.

The technical assistance provided can be of a comprehensive nature encompassing production or process techniques, marketing practices and strategies, development of alternative products, the implementation of management information systems, and the exploration of export opportunities. This technical assistance is not free to the firms. The firms share the cost of developing and implementing the adjustment plans. The assisted firm is required to pay at least 25 percent of the cost of providing the technical assistance. And depending upon the financial stability of the firm, it may be required to pay a larger portion of the cost of the technical assistance.

The Mid-America Trade Adjustment Center was established on September 15, 1978. It has the responsibility for assisting firms in four of the six States that are depicted before you, in addition to Texas, Oklahoma, Arkansas, Louisiana, Missouri, and Kansas. And as you might expect, a large portion of our clients have come from Texas and from Missouri because their manufacturing base is a larger one than the remaining States.

During this time, the Mid-America TAC has had contact with an excess of 1,200 firms. In some instances, assistance has been rendered of an extensive nature, and in other instances, it has been very minor. Many firms, when they have contacted the Mid-America TAC, have progressed to a point where the only alternative for that firm is to cease operations. The TAC, we think, has done a positive act and has performed a positive act by directing an orderly closedown of that firm, conserving the capital of the owners of that firm for use in other businesses, and lessening the impact on suppliers that could otherwise exist. We have been successful, also, in assisting firms in an adjustment program.

I might mention that one firm located in south central Texas from 1982–83 experienced a sales loss of approximately one-third. With this was a decline in employment of some 55 people. In the fall of 1983, with assistance from the Mid-America TAC, its marketing program was revamped; their profitable market niches were identified; some unprofitable products were eliminated from its line; and improvements in its distribution facilities were effected. The result of this is that the firm is nearing its previous sales volume. It is now a profitable firm. Employment has been stabilized. And we think there have been two factors. One is creating new jobs. The other is stabilizing the jobs that exist. The comment has been made that many of the new jobs that are created, the wage rate for those jobs is at a much lower level. Hence, a job that is stabilized at the $12 to $14 level could be equivalent to possibly three or four jobs at a lower wage level. So we think that stabilizing employment is very important for our economy.

The effort in this particular instance has not created a new job, but it has stabilized the employment. This was done with an investment on the part of the Federal Government of $70,000. And if we put that on a per job basis, it is an investment of $522.39. We think this stands for a very cost-effective program.

We might look at an apparel manufacturer in St. Louis. Again, it experienced a decline in sales of some 25 percent. Through technical assistance of the Trade Adjustment Program, employment has increased. And in early 1986, it is projected that it will reach its 1982 level. This involved an investment of $167,000 on the part of the Federal Government. It comes out to a per job investment of $728. Again, a very cost-effective program.

The Trade Adjustment Assistance Programs for firms offers in-depth counseling and assistance instead of economic platitudes. And most important, it creates taxable income and conserves American jobs; thus, paying for itself many times over. Generally, a firm's adjustment involves a successful deployment of strategies which permit all or a portion of the owner's investment to remain profitable; and the skills and the training of all or a portion of the workers to remain useful and gainfully employed by that firm. But adjustment is not an easy process because it does require drastic changes in the way the firm operates.

Just as a displaced worker often needs training assistance from qualified sources, a company also needs the guidance and hands-on assistance available from the Trade Adjustment Assistance Centers.

In conclusion, I urge you to continue strong support for this program. Clearly, this program pays for itself because the results of adjustments are viable companies that pay Federal taxes and working men and women who pay Federal taxes. The program requires only a few successful adjustments to pay the cost of the total program many times over.

Thank you very much, gentlemen.

[The prepared statement of Mr. Blackwood follows:]

PREPARED STATEMENT OF TOM BLACKWOOD

Mr. Chairman, my name is Tom Blackwood and I am the Interim Director of the Mid-America Trade Adjustment Assistance Center (TAAC). The host organization for the MA-TAAC is Research and Public Service of the University of Arkansas at Little Rock. Any views I may express today are entirely my own and do not necessarily represent the view of the Department of Commerce or the Administration.

I appreciate the opportunity to talk with the Task Force on Economic Policy and Growth. My comments will be centered around the impact of imports on U.S. manufacturers and the network of Trade Adjustment Assistance Centers for manufacturing firms.

The United States trade balances in manufactured goods and services have diminished greatly during the past several years as a result of rapidly rising imports and declining exports. United States manufacturers' trade balance has moved from a surplus in 1981 of $11.4 billion to a 1984 deficit of $80.7 billion. This is a net negative swing of $92.1 billion. In 1985, one out of five dollars spent on manufactured goods in the U.S. buys an import, which crowds out jobs and profits in U.S. industries. The impact of increased imports has affected nearly all industries. Even the industries where U.S. manufacturers held a large competitive advantage have seen this advantage disappear. An example would be the reduction in high-tech surplus from $26.4 billion in 1981 to $6.2 billion in 1984. Foreign manufacturers are competing effectively with U.S. industries normally considered as capital intensive, as well as those considered as labor intensive and subject to competition from low-wage countries. In fact, there is no segment of the American economy immune from the severe competition of foreign made goods.

The impact of imports has necessitated numerous structural changes in the U.S. economy and within the firms composing that economy. New technologies have been developed and applied that have permitted companies in mature industries to remain competitive. The application of new technologies has saved many manufacturing jobs that otherwise would have been lost.

This is where the Trade Adjustment Assistance network makes its contribution to the competitiveness of U.S. manufacturers. Under Title II of Public Law 93-618, the Trade Act of 1974, the International Trade Administration/Office of Trade Adjustment Assistance, acting for the Department of Commerce, provides technical assistance to import-impacted firms and industries in an effort to assist these firms and industries to increase their competitive position vis a vis foreign competition.

The technical assistance provided can be of a comprehensive nature encompassing production or process techniques, marketing practices and strategies, development of alternative products, implementation of management information systems, and export opportunities. The technical assistance is not a free item to the firm. Firms share in the cost of developing and implementing adjustment plans. The assisted firm is required to share at least 25 percent of the cost of providing the technical assistance. Depending upon the financial stability of the firm, it may be required to assume a larger share of the cost.

The following sectors have been identified by several studies as being the most adversely impacted sectors:

SIC	Description
22	Textile Mill Products
23	Apparel Products
31	Leather Products
32	Stone, Clay, Glass & Concrete Products
33	Primary Metal Products
34	Fabricated Metal Products
35	Non-Electrical Machinery
36	Electrical Machinery
39	Misc. Manufacturing Industries

The Trade Adjustment Assistance Center network was created in 1978 to deliver the technical assistance. The Mid-America TAAC was established on September 15, 1978. MA-TAAC has the responsibility of assisting import-impacted firms in a six state area composed of Texas, Louisiana, Arkansas, Oklahoma, Kansas and Missouri.

During this period the MA-TAAC has assisted 138 manufacturing firms. Unfortunately not all firms assisted have been able to survive. Several firms were beyond help when they contacted the MA-TAAC for assistance. However, valuable assistance was rendered to many of these firms by advising them that they cease operations in an orderly manner. Thus, conserving valuable capital for more productive uses. However, there have been and are firms that have successfully benefited from the technical assistance provided by MA-TAAC. I would like to cite an example or two.

EXAMPLE 1

An industrial fastener manufacturer located in Southcentral Texas experienced sales declines from $15.3 million in 1982 to $10.6 million in 1983. Employment during this period declined from an average of 171 to 134. The firm entered the Trade Adjustment Assistance program in the fall of 1983. With assistance from MA-TAAC, its marketing program was revamped and profitable market niches were identified, some unprofitable products were eliminated and improvements implemented in the warehouse facility.

RESULT: Company sales nearing $17 million annually, profitable firm and stabilized employment.

This effort by the firm and MA-TAAC did not create new jobs. However, 134 jobs were stabilized and the federal investment in these jobs amounted to $70,000. That is an average of $522.39 per job. This was a most cost effective expenditure and the federal revenues generated have returned the investment many-fold.

EXAMPLE 2

An apparel manufacturer in the St. Louis area experienced sales declines from $21.3 million in 1980 to less than $15.0 million in 1983. Employment dropped from 648 in 1980 to 370 in 1984. MA-TAAC and the firm determined that it was necessary to alter product lines. The firm installed an internal silk screen department and embroidery capabilities.

RESULT: Employment has increased to 400, and is projected to be at the old level of 600 in early 1986. Sales are at the $19.0 million level.

This was accomplished with a federal investment of $167,500. If only the 30 added employees were considered, the cost per job would be $5,583.33. If restoring employment to the 600 level is considered the federal investment in the 230 jobs would be $728.26. A very cost effective project.

The Trade Adjustment Assistance program for firms and industries offers in-depth counseling and assistance instead of economic platitudes and, most important, it generates taxable income and conserves American jobs, thus paying for itself many times over. Generally, a firm's adjustment involves the successfull deployment of strategies which permit all or a portion of the owner's investment to remain profitable and the skills and training of all or a portion of the workers to remain useful to and gainfully employed by the firm, but adjustment is not an easy process. Firm adjustment often requires drastic changes in the firms organization and its approach to doing business. Just as a displaced worker often needs training assistance from qualified sources, a company also needs the guidance and hands-on assistance available from the Trade Adjustment Assistance Centers.

In conclusion, I urge you to continue strong support for this program. Clearly, this program pays for itself because the results of adjustments are viable companies that pay federal taxes and working men and women who pay taxes. The program requires only a few successful adjustments to pay the cost of the total program many times over.

Mr. WRIGHT. Mr. Blackwood, thank you for a concise and informative statement.

Your experience since the inception of this program in 1978, does it indicate that the problem is growing worse, that it is a problem that had already been set in motion and is simply proceeding at a steady pace?

Mr. BLACKWOOD. There are a number of studies both by the Department of Labor, the Department of Commerce, as well as independent research firms which continually add new SIC codes to those—the list of those that have been adversely impacted by imports. It is a growing problem, sir.

Mr. WRIGHT. A growing problem.

Mr. BLACKWOOD. It is a growing problem.

Mr. WRIGHT. The SIC Code is——

Mr. BLACKWOOD. That is the Standard Industrial Classification Code which can carry down to a four-digit classification for all manufacturing industries and those industries—2,000 through 3,900 SIC's. That is a term which we use frequently to identify the type of industry in which a firm operates.

Mr. WRIGHT. In other words, when the Department of Commerce identifies a new SIC or a new type of industry, that is, we are impacted by imports, it simply is indicating that now the problem of our trade deficit has reached yet another sector of the American economy. Is that what——

Mr. BLACKWOOD. Yes, sir; that is correct.

Mr. WRIGHT. I understand that you are inhibited either by law or by administrative regulation—I don't know which—from making publicly known the companies that are about to go under or suffering loss of the type you described, the availability of services. Do you have to—does the company have to hear about you on its own and come to you, or do you have the capacity to see a company going under the second time and reach out and say, hey, maybe there is something we can do to help?

Mr. BLACKWOOD. Unfortunately, sir, at the present time, we operate only on a referral basis. We are prohibited from contacting firms directly. They must hear of us in another manner, through our outreach program. We are trying many different avenues to alert the industries to the fact that we are in existence and are ready to help. But this is a slow process. And, at this time, we must depend upon the firms to contact us before we can offer our assistance to them.

Mr. WRIGHT. Mr. Boehlert, do you have questions?

Mr. BOEHLERT. I do. And I want to thank you for the excellent statement.

The opening witness, my colleague, reported that the people in the First District of Texas feel that we have a noncaring Government when we are dealing with this problem. I wish to assure him and them that we have a caring Government, regardless of political affiliation.

The problem, of course, is how do we respond to the crisis that has been identified. In both of the examples you have indicated in your testimony to us, changes were made as a result of the dynamics of the situation. In one case, the marketing program was revamped; new market niches were identified; and they got rid of some unprofitable product lines. In the other example that you reported, you talked about the faltering product lines. It is a school of thought that suggests that we must at all costs avoid the wave of protectionism hysteria that seems to be sweeping the country. And maybe what we have to do is reexamine what we are doing. And rather than providing more protection, maybe a change in direction.

Would you comment on that? Because in this instance, in both companies, you changed direction. There was nothing changed with respect to foreign operations or the law. It is just that they needed some guidance to change——

Mr. BLACKWOOD. The technical assistance is provided to assist the firm to adapt to the changing situation and the competitive environment in which it finds itself operating at that particular moment. Because we are not in a position to change the law or to affect things of that nature. So we take the environment as it is given and try to develop the appropriate strategies that can result in a viable, competitive firm.

Does that answer your question, Congressman?

Mr. BOEHLERT. I'm just concerned—and I will just end it at that because my other colleagues would like to ask some questions. I am concerned that there are a great many business people across the country now reading the paper, turning on the television at night and saying, "We're going to get relief pretty soon with legislation to protect us or to force others to do something else." And it seems to be relying too much on that rather than a self-examination, dealing with an operation like yours, getting the advice they can get from experts like you to do what maybe they should do: Alter product lines; identify new market niches; that type of thing.

I commend you for the work you are doing. I am very supportive of the program. Keep up the good work.

Mr. BLACKWOOD. Thank you, sir.

Mr. WRIGHT. Mr. Frost.

Mr. FROST. Mr. Blackwood, your program, your particular one, covers a six State region which you have outlined. How does this region compare with other parts of the country? Have you seen the studies to that effect? Has your office—does your office handle a larger volume, a smaller volume? How does our situation compare to other regions with similar programs?

Mr. BLACKWOOD. We probably rank somewhere within the middle of all of the TAC's as far as the number of firms assisted. Some in the Northeast and in the upper Midwest, where there is a heavier concentration of manufacturing concerns, have generated a higher number of firms that are clients. We think that the assistance that is rendered to the firms in this region is unparalled.

Mr. FROST. But we are not at the bottom?

Mr. BLACKWOOD. No, sir; we are not at the bottom.

Mr. FROST. But we have had a serious problem in this particular region?

Mr. BLACKWOOD. Yes, sir; it is a serious problem in this region, as it is all over the country, sir.

Mr. FROST. What is your outlook for this particular region for the next year or two?

Mr. **Blackwood**. I think that the problem will continue. The impact of imports will continue to have an adverse effect on manufacturing concerns in this six State region which we serve.

Mr. **Frost**. How much worse do you think things will get than they are right now?

Mr. **Blackwood**. I do not know that I am qualified to answer that question, sir.

Mr. **Frost**. Have you seen any studies to that effect? Have you talked to people who may have an opinion about that?

Mr. **Blackwood**. Yes; and I think the consensus would be that the impact will be more severe in the next year or two, and even for a longer period of time, sir.

Mr. **Frost**. In our particular region?

Mr. **Blackwood**. In our particular region; yes, sir.

Mr. **Frost**. Specifically, have you talked to anyone about the State of Texas, or do you have any opinions about what may occur within this State?

Mr. **Blackwood**. We have talked with a number of firms all over the State of Texas, from El Paso, Houston, the Dallas area, San Antonio, because we have a number of clients. In fact, our largest client count for the Mid-America TAC comes from the State of Texas. And the State of Texas, east and west, north and south, has had a severe impact from imports.

Mr. **Frost**. And you see this continuing in the next several years?

Mr. **Blackwood**. Yes, sir; I do.

Mr. **Frost**. Do you think that the situation will be worse in the State of Texas in the next 2 years than it has been in the last year or two?

Mr. **Blackwood**. I think that is a very very strong possibility, that that will be true, sir.

Mr. **Frost**. Thank you.

Mr. **Wright**. Mr. Gephardt.

Mr. **Gephardt**. Thank you, Mr. Chairman.

Mr. Blackwood, I appreciate all you have done for the Carroll Co. in St. Louis. That is where I am from. I was not aware that this had happened, but I commend you for what you have done, and tell you that the people in Missouri appreciate your activities as well.

Let me ask two quick questions. One, is there any capacity in your office to look at what is happening to sectors of industries that are being severely impacted by trade? In other words, do you do any prospective work in preparation for companies that may come to you in trying to determine whether there are real competitiveness problems?

Mr. **Blackwood**. Yes, we do make some, and I say, limited industry studies as they affect the particular firms who contact us, because it is necessary to look at that particular industry in developing an adjustment proposal for that particular firm.

Mr. **Gephardt**. Are there any programs in the Commerce Department other than yours where the Commerce Department initiates an inquiry with an industry into competitiveness problems?

Mr. **Blackwood**. Yes. In the Office of Trade Adjustment Assistance there is an industry program that is funded out of the Department of Commerce and the Office of Trade Adjustment and Assistance which directly addresses some of the industrywide problems.

Mr. Gephardt. And they do communicate with industries——

Mr. Blackwood. Yes, sir.

Mr. Gephardt [continuing]. About the problems they see in the future for that industry?

Mr. Blackwood. This is supposed to be their activity; yes, sir.

Mr. Gephardt. Does that take place out in regional offices, or does that take place in Washington?

Mr. Blackwood. It is my understanding that that usually takes place in Washington in conjunction with some of the trade associations that represent that particular industry.

Mr. Gephardt. OK. The second question is, at one time the trade adjustment law provided for training funds or job re-training funds for displaced workers. Do you know the status of that program, and does your office have anything to do with the implementation of that program?

Mr. Blackwood. No, sir. The TAC Program does not—or is not involved in the retraining of displaced workers. It is my understanding that that is a function of the Department of Labor and is handled through the Department of Labor.

Mr. Gephardt. Thank you very much, Mr. Chairman.

Mr. Wright. Mr. Alexander.

Mr. Alexander. Thank you, Mr. Chairman.

Thank you very much, Mr. Blackwood, for your precise testimony and for the good job you are doing to serve our six State region.

Mr. Frost asked you a question that goes to the outlook of our Nation in the industrial sector, to which you responded you were not qualified to answer.

Might I examine that a little further——

Mr. Blackwood. Yes, sir.

Mr. Alexander [continuing]. With reference to the graphic which is displayed on this wall to my right. It is captioned on the top part of the graphic: "Deterioration in Trade Widespread Among All Key Sectors Since 1980." And as I observed, the graphic is prepared by the Department of Commerce with which you are associated. So is that correct, are you familiar with this graph?

And I have not seen this graph before this morning either, so I come to this question with the same amount of preparation.

There are six areas displayed here: One, capital goods; two, high technology goods; three, automotive products; four, consumer goods; five, industrial supplies; and, six, agriculture. Are these the general classifications given by the Department of Commerce to the major industrial sectors of our economy?

Mr. Blackwood. I would think that would cover them; yes, sir.

Mr. Alexander. Is that generally true within our economy—I mean within the Department of Commerce?

I observe from this information that each one of these sectors is declining in trade as measured by billions of dollars. Is that correct?

Maybe it is unfair to pursue this with you since you are not familiar with this chart.

Mr. Blackwood. It would appear that that would be the situation from looking at the chart, sir.

Mr. **Alexander**. Do you know of any other information which is published by the Department of Commerce which would refute the trend that is demonstrated here by this graph?

Mr. **Blackwood**. No, sir. I do not.

Mr. **Alexander**. And so it would be fair to conclude from this draft, if this information is correct, that in response to the question from Mr. Frost, we are experiencing a general decline in all sectors of our economy in—because of international trade. Is that true? Would that be a fair conclusion based upon this information?

Mr. **Blackwood**. I think we are faced with severe competition in all sections of the——

Mr. **Alexander**. And that competition——

Mr. **Blackwood** [continuing]. Economy.

Mr. **Alexander** [continuing]. Is resulting in a decline in our income measured in billions of dollars? Based on this draft? Well, I will say myself, based on that information. It is probably not fair to ask you to respond to that.

Based on this information, unless someone else knows more about it, I would just state that it occurs to me that we are experiencing a general overall decline in all sectors of our economy that is a result of imports into this country for—from whatever regions.

I thank you very much for your observations.

Mr. **Wright**. Mr. Watkins.

Mr. **Watkins**. Mr. Chairman, I have two quick questions.

Mr. Blackwood, I am concerned a little bit—I am from Oklahoma. That is west of the State of Arkansas. You indicated that you could not make contacts; you had to rely on references from someone or some industry contact. What kind of outreach do you have in Oklahoma?

Mr. **Blackwood**. We have had the Congressmen make the mailouts for us in their respective congressional districts. We have had chambers of commerce—we work through the business and economic development organizations within the States to gain referrals. We work through financial institutions, they may be able to make referrals to us of firms in their particular areas. We have attended trade associations and trade conferences to get our message out to prospective clients.

Mr. **Watkins**. It seems to me this would be something we would want to look at. It might lay out some opportunity if you had more direct contact.

And I am asking—I am not leading this to the question if I recall correctly, was this program zeroed out by the budget—by the administration?

Mr. **Blackwood**. I believe that is correct, sir; that is correct.

Mr. **Watkins**. Because it seemed like this was something that you had done in St. Louis, then Texas, and several other places.

Mr. **Blackwood**. We have some successful clients in the Tulsa area, in Sand Springs, and in Oklahoma, also, sir.

Mr. **Watkins**. It seems to me there is going to have to be some kind of increased activity in the next year or two if we are going to meet the loss of jobs needs of a lot of our constituents.

Mr. Chairman, that is all I have.

Mr. **Blackwood**. Sir, if I might add, that is why I urge the support for this program from this panel and from the Budget Committee.

Mr. **Wright**. Mr. Lundine.

Mr. **Lundine**. Mr. Chairman, I have really appreciated this testimony because I do not think anything is created in Washington. Hopefully, we create an environment where growth can happen and adjustment can be efficiently managed, but we do not accomplish it.

I would like to follow up on where my colleague from Missouri, Mr. Gephardt, left off.

From the standpoint of somebody who is working out in the field, is there any reason why we put worker retraining in one department, industry adjustment in one office, and your program in a different department and in the field? Is there a rational reason for that or is that sort of an illogical, Federal, administrative way of handling some trade related problems?

Mr. **Blackwood**. I am not sure of the reasons behind it because originally trade assistance for firms was administered by EDA. It was subsequently transferred to the Office of Trade Adjustment Assistance and the Office of International Trade, in the Department of Commerce. Why that transfer was made, I'm sorry, I do not know, sir.

Mr. **Lundine**. Do you have any relationship with that office now? The industry adjustment program.

Mr. **Blackwood**. We receive their publications and their reports; yes, they are sent to us by the Office of Trade Adjustment Assistance for the industries. Direct contact, no, sir.

Mr. **Lundine**. But there is no functional relationship?

Mr. **Blackwood**. No direct contact; no, sir.

Mr. **Lundine**. So, basically, worker retraining is handled by one bureaucracy, and although they are in the same department, industry adjustment is handled by another one, and your program is still a third aspect?

Mr. **Blackwood**. That's correct, sir.

Mr. **Lundine**. Thank you very much.

Mr. **Wright**. Mr. Blackwood, thank you. You have enlightened us, and we appreciate very much having you with us.

Mr. **Blackwood**. Thank you very much for the opportunity, sir.

Mr. **Wright**. Our next witness is John Meagher, vice president of government relations of the LTV Corp.

Mr. Meagher, are you going to make a presentation or do you have someone else to——

Mr. **Meagher**. I am going to speak.

Mr. **Wright**. Fine; very good. Mr. Meagher, thank you for being with us. Our committee is familiar with LTV Corp. and its many operations, including airplanes, steel, and various other commodities.

STATEMENT OF JOHN K. MEAGHER, VICE PRESIDENT, GOVERNMENT RELATIONS, THE LTV CORP.

Mr. **Meagher**. Thank you, Mr. Chairman.

My name is John Meagher. I am vice president, government relations for the LTV Corp. It is headquartered here in Dallas, TX. LTV is the country's second largest steel company, the 14th largest aerospace and defense contractor; and a major distributor of energy products not only in this country, but in other parts of the world.

We welcome the task force to the Metroplex and appreciate you taking time from your schedules to come and hear what interested citizens have to say about the problem of the ability of American companies and workers to compete in the world marketplace.

The chairman of my company, Ray Hay, made a speech in Washington about 2 weeks ago in which he said, "Trade is the hottest topic of the day. Nothing is more topical."

If you picked up the Dallas Morning News and the Dallas Times-Herald this morning, the two leading stories are about the Mostek Corp., a semiconductor subsidiary of United Technologies, that simply closed. This and most closures are related to imports.

Before I continue, I would like to comment about a point that has been made a number of times here. And that is whether or not our trade problems are related only to so-called Rust Belt industries. They are not. One fact that I would urge you to consider: 70 percent of the high tech products manufactured in this country are purchased by basic industries. We're the customers. And if you do not have customers, you are not going to have a high tech industry in this country.

But this hearing is about the questions of trade and the deficit. Clearly, they are linked. They are both mid- to long-term problems, and their solution is going to require patience and perseverance over the long term to solve. However, in the meantime, what is facing this country, both in the Government and the private sector, is a crisis of liquidity. At the Federal level, we have a $200 billion budget deficit and $150 billion trade deficit. In the private sector, farmers, steelmakers, semiconductors, heavy equipment manufacturers also are facing the crisis of liquidity. You see this across the economy. Previous witnesses have referred to it.

As imports have risen and exports have fallen, major segments of this country have faced liquidity problems. In industry after industry, the decline is not in foreign markets but of the ability of domestic companies to compete in the domestic market. For example, there is a 22-percent increase this year over last year in the foreign investment by American firms going overseas—plant flight. What this means is that it is not only the value of the dollar that is affecting the decision of companies to go overseas and manufacture overseas, because the value of the dollar could be down by the time they even get their plant and equipment in place productive. What it says is that there are long-term, basic structural problems that are occasioning this trade deficit that we have and the problems that flow from it. We need to look at those long-term problems if we are going to deal with the basic questions that are facing both American workers and American industry.

In our view, the problem of trade is occasioned by three factors. First is huge deficit. Congressman Wright and others have referred to that. People say it is 50 percent of the problem. It may be. Second, we have an outmoded tax system that simply encourages imports, discourages exports and penalizes trade impacted companies. Third, the failure of this and previous administrations to adequately enforce our trade laws and to provide the kind of policies that encourage the continuation of manufacturing in this country and job creation, both at the service level as well as at the basic industry level.

In the time allotted to me, I would like to talk about the third point specifically, about steel because we are the second largest steel company in the country.

Trade in steel is a subject that is important to us not only as a national company but into this region and this State. We have Armco Steel here, we have Lone Star Steel here. National has been here. There are various steel fabricating outfits in Texas. This is a critical problem to the Southwest, not just to the Pittsburgh area or to the Ohio Valley or to the industrial Midwest. This is a problem that is endemic in this area and needs attention. Congressman Chapman has testified, for example, about the problems of Lone Star. Lone Star witnesses will tell you about them. They are severe, and they are directly related to imports.

Before proceeding, let me emphasize that LTV believes in free trade. We are not protectionist oriented. We make significant product for export, both in the commercial aircraft industry—in Martin Frost's district, for example, where we have a major plant that makes 747 components and others—most of which are exports. We also are very much involved in exportation of energy products throughout the world: Oil field drilling equipment, rigs, et cetera, that we are trying to market in virtually every area of the world as well as the United States. We never supported steel quota legislation because we felt that, ultimately, the governments would come to some sort of a negotiated settlement with the other countries that would allow for some flexibility in the area of steel imports. The plan that we came up with is very similar to the one that the President just under a year ago implemented—just over a year ago.

But a few facts are in order about steel. Since 1972, one-quarter of a million workers in the steel industry have lost their jobs. Texas has lost 12,000 workers and 36,000 jobs related to steel. Since 1979, domestic steel shipments have declined by 30 percent. In the last 2 years, American steel manufacturers have experienced an $8 billion loss. Since 1979, steel imports have risen 15 percent and now are in the 25 to 26 percent range.

Simply, both in America and steel, steel has been declining in workers, profits, as imports have increased. At the same time, we have been reducing our capacity while the foreign competitors have been increasing theirs. What that simply says is that foreign jobs are replacing American jobs.

Despite these conditions, steel labor and American industry, began to fight back in 1982. As a result of a series of actions in 1984, September of 1984, the President announced a comprehensive steel program that was designed to ensure that all the countries in the world would work on a voluntary basis with the United States in order to come to some rationalization of the amount of imports coming into this country. And you in the Congress followed last year with the steel legislation that provided both the authority and the commitment to make sure that that program was carried out as announced by the President and as expressed by Congress in that law.

Basically, what both the President and the Congress agreed to was a level of imports at the 20-percent level for 5 years on a voluntary basis, so the steel industry would have an opportunity to be able, in that period of time, to rationalize its capacity and to modernize the remaining capacity in order to be competitive again.

Since the announcement by the President, 395 days have passed. At this point, we are still at the 25 percent import level—exactly what it was a year ago. This is despite the administration's best efforts. They have made a vigorous effort. But, clearly, 395 days is enough.

In the legislation that passed last year, you provided a sense of the Congress resolution that this program should be implemented in a substantial way within a reasonable period of time; and, if it wasn't, you would consider legislative action as a followup to make sure that your views and your commitment to this program would be made good. We think 395 days is a reasonable period of time, and that a 25 percent import level is not a substantial commitment to the level that both the Congress and the President implemented.

So what we are asking for—and we are asking for it now—legislation similar to that which the Congressman from the First District of Texas has introduced. That bill would put teeth into this program and nail it down. This is not a matter of enacting a protectionist bill; this is a matter of enforcing a commitment and an agreement that the President of the United States and the Congress of the United States have made to a program.

There are important ramifications of this. One is that we demonstrate to the rest of the world that when we make a deal, the deal is going to have to be good; and if it isn't, we are not going to be able to bargain in the future.

Second, as far as this particular program is concerned, the absence of legislation to implement the program will probably mean that those countries that have already signed up will jump off. If you were Japan and you had restricted your imports as part of this program, as they have done in good faith, and major countries of the world, like Sweden, Canada, and Argentina, had not signed up; wouldn't you be concerned about ceding your markets now to one of those countries. And after a certain length of time, you are going to have to say forget it; I'm not going to do that. I bargained as part of a total effort and a total program to be able to ensure that there would be an occasion for the American steel manufacturers to recover. So what we think is important—the second reason is important to make sure that what is in the program right now stays in place.

The third reason is that if this program fails the budget deficit will swell. Transfer payments will increase because American workers will be idle. Taxes, both at the State, Federal, and local levels, will decline when companies either idle workers or go out of business. And you will have to face it on the budget side of the ledger.

Therefore, we think it is important for the Congress to consider and to act on legislation now to ensure proper implementation of this program. There are a lot of ramifications to that effort that are tied to the kinds of things that you are talking about here today.

I have taken too long. I appreciate you listening to me, and I would be glad to answer any questions.

[Testimony resumes on p. 37.]

[The prepared statement of Mr. Meagher follows:]

PREPARED STATEMENT OF JOHN K. MEAGHER

Mr. Chairman, my name is John Meagher, and I am the Vice President of Government Relations for The LTV Corporation, which is headquartered here in Dallas. LTV is the nation's second largest steel company, 14th ranking defense and aerospace company, and a leading producer and distributor of energy products.

We welcome the Task Force to the Metroplex and applaud you for taking time from your schedules to hear the views of interested citizens on how the budget deficit impacts the ability of America to compete in the international market place.

As our Chairman, Raymond A. Hay, stated at an LTV Forum on trade policy in Washington last week -- "Trade is the hotest issue of the day. Nothing is more topical."

Clearly, the problems of trade and the deficit are linked. They are both problems of mid or long-term duration which will require patience and longer term solutions. In the short term, however, both American government and American business are faced with a crisis of liquidity which must be dealt with swiftly and effectively. The Federal Government faces a $200 billion budget deficit and a $150 billion trade deficit, and farmers, independent energy operators, steelmakers, heavy equipment manufacturers, etc., are also facing a crisis of liquidity.

As imports have risen and exports fallen, major segments of American business have been squeezed and, subsequently, have been, are, and will continue to liquidate their assets because of the lack of ability to compete. In industry after industry, declining share of the domestic market is the tell-tale sign of future problems. In nearly every sector, the problem is the same — overcapacity. As the world has become more industrialized, its farms more efficient, its natural resources more accessible because of technology and its need to export greater, American business has faced increasing competition for domestic and foreign markets with less and less financial ability to modernize, and thus, compete.

The most dangerous and fundamental result of the liquidity crisis is the decline in the ability to compete in world markets. That lack is occasioned by three factors:

(1) Our huge budget deficit has driven up real interest rates domestically, impacting the cost of capital and attracting foreign dollars to help us service our debt. That drives up the dollar value which is said to account for 50 percent of our trade deficit.

(2) An outmoded tax system which encourages imports, discourages exports, promotes off-shore manufacturing and penalizes trade-impacted companies.

(3) The failure of this and previous Administrations to vigorously enforce our trade laws and to restrict unfair imports.

In the time allotted me, I intend to concentrate on the third item because it directly impacts LTV and the state of Texas most dramatically.

It is important to note that Texas is a strong steel state. In addition to LTV, Armco, United States Steel, National, and, of course, Lone Star are all in business in this state.

LTV is a company which historically has been dedicated to free trade. We are exporters of energy equipment and commercial aerospace products, and we are also the nation's second largest steelmaker. LTV, it should be noted, never supported steel quota legislation, but proposed a system of negotiated restraint agreements in steel which is very similar to what President Reagan announced, and the Congress provided authority for, over a year ago.

The problems of the steel industry are both national and local in nature. To put the problems in perspective, a few facts are relevant:

- Since 1972, 250,000 steelworkers have lost their jobs.
- Texas has lost 12,000 steel jobs and about 36,000 jobs related to steel.
- Since 1979, steel shipments have declined by nearly 30 million tons.
- In the last two years, American steel companies have experienced losses of about $8 billion.
- Since 1979, steel imports have risen 15 percent to approximately 25 percent of the American market.

Simply, American steel -- both in Texas and in other states -- has been declining in workers, profits, and shipments because of increases in imports. At the same time, while we have been reducing capacity, modernizing our remaining plant and equipment, increasing productivity, cutting costs -- including reducing salaries and benefits -- in order to become more competitive, foreign steel producers have expanded capacity for the American market. In short, because of our open market, foreign workers are replacing American workers, and foreign government subsidies are increasing as domestic steel profits have disappeared.

Despite these conditions, in 1982 both the steel companies and the workers began fighting back. At that time, the domestic steel producers filed unfair trade cases against producers in the European Economic Community as well as Romania, Spain, Brazil, and South Africa. The evidence was overwhelming, and after months of negotiations a settlement was reached with the EEC that established limitations on steel entering the U.S. market from that part of the world. The US/EC Steel Agreement which runs from November 1, 1982, to December 31, 1985, addresses three product groupings; namely, "arrangement products," "pipe and tube products," and "consultation products."

In 1984, in an effort to address increased imports from the "all other" category, additional unfair trade cases were filed, a quota bill was introduced in Congress, and Bethlehem Steel filed a 201 Petition with the U.S. International Trade Commission. In July 1984, the U.S. International Trade Commission found that increased imports of semi-finished steel, plates, sheets and strip, wire and wire products, and structurals were a "substantial cause" of serious injury to the domestic industry and recommended to the President that he impose relief for those products in the form of quotas or tariff-rate quotas. On September 18, 1984, the President rejected the import relief recommended by the U.S. International Trade Commission, but instead announced his own program to address "...surging volumes of unfairly traded steel" into the U.S. market. The principal features of the President's program were:

1. Imports of steel mill products and semi-finished steel were to be about 20 percent of apparent consumption, with product and country mix based on historical trading patterns.

2. The agreements to be negotiated by the Administration with foreign countries were to be made enforceable at the U.S. border under Administration-sponsored legislative authority.

3. It covered all steel mill products, including semi-finished.

4. It was for five years.

Subsequently, last December, Congress enacted PL98-573, The Steel Import Stabilization Act of 1984 to complement and provide authority for the President's program. Both the President and the Congress contemplated that all steel exporting countries would voluntarily come under this program. Congress provided specific language to ensure the integrity and success of the program. It expressed the sense of Congress that imports be held to a 17 percent to 20 percent level, and that if the President's program did not produce "satisfactory results within a reasonable period of time," Congress will consider further legislative actions.

Mr. Chairman, 395 days have passed since the President's announcement and commitment to get this program in place within 90 days. Imports today are at almost the same level they were one year ago -- 25 percent.

Despite the Administration's best efforts, the President's program is not working, and clearly 395 days is a reasonable period of time for action.

To date, 14 countries have acted in good faith and restrained their imports under voluntary agreements. However, there are 18 countries with no steel mills which are now importing steel into America (see attachment) and important countries like Canada, Argentina, Austria, and Sweden have refused to bargain. In addition, the existing EC agreement ends on December 31st, and there is no evidence to suggest that an extension of it will be concluded by October 31st - the Administration's deadline for such action.

Our concern is that in the absence of Congressional action to bring these other countries in, the entire program will come apart -- with disastrous consequences.

If this occurs, the federal budget deficit will swell because of increases in transfer payments, losses of corporate income, sales, and property taxes.

We ask you to ensure against this occurrence.

Specifically, we urge the introduction and enactment now of legislation codifying the President's own program at a 20 percent level and requiring him to embargo shipments from those countries which fail to agree to a voluntary program.

Time is of the essence since deadlines are passing, workers continue to be idled, and companies face severe liquidity problems.

Action on this request will reduce the budget deficit by ensuring higher individual and corporate tax receipts and decreased transfer payment costs. It is fair and equitable, and it will let all nations know that we enforce our agreements. The time for acton is now, and we urge your speedy consideration.

# # #

UNITED STATES IMPORTS OF STEEL MILL PRODUCTS
(000 of Net Tons)

	6 Months 1985	6 Months 1984
Canada.........	1,538	1,684
LATIN AMERICA		
Costa Rica.....	*	---
Mexico.........	129	545
Colombia.......	1	---
Venezuela......	256	210
Peru...........	*	---
Chile..........	9	1
Brazil.........	849	721
Uruguay........	*	---
Argentina......	77	169
Panama.........	*	---
Dominican Rep..	*	---
# Belize.........	*	*
# Bahamas........	2	---
# Antigua........	*	---
# Montserrat.....	*	---
# Barbados.......	*	---
Trinidad & Tobago	37	32
# Neth. Antilles.	*	---
# Suriname.......	*	*
# Cayman Islands.	---	4
Sub-Total......	1,362	1,683
EUROPEAN ECONOMIC COMMUNITY		
United Kingdom	327	229
F.R. Germany...	1,189	987
Denmark........	6	1
Ireland........	---	*
Netherlands....	267	204
Belgium/Luxembourg	542	410
France.........	770	480
Italy..........	333	287
Greece.........	105	70
Sub-Total	3,538	2,668
AFRICA		
Morocco........	*	---
Algeria........	8	---
Libya..........	*	*
# Mali...........	*	---
# Guinea.........	*	---
# Niger..........	1	---
Kenya..........	*	---
Mauritius......	3	---
South Africa...	163	279
# Swaziland......	*	---
Zimbabwe.......	3	---
Sub-Total......	178	279

	6 Months 1985	6 Months 1984
ASIA		
China..........	21	23
Japan..........	3,481	3,219
Israel.........	11	1
Jordan.........	*	---
Saudi Arabia...	3	1
India..........	10	4
Pakistan.......	---	*
Thailand.......	13	---
# Laos...........	*	---
Singapore......	14	*
Indonesia......	*	---
Philippines....	*	*
# Macao..........	*	---
# Bhutan.........	*	---
Rep. of Korea..	1,001	1,156
Hong Kong......	*	*
Taiwan.........	103	45
Bangladesh.....	---	1
Sub-Total.....	4,659	4,451
AUSTRALIA/OCEANIA		
Australia......	68	119
New Zealand	18	15
# Kiribati.......	*	---
# New Caledonia..	1	---
# Fiji...........	---	*
Sub-Total	87	134
OTHER EUROPE		
Iceland........	*	---
Sweden.........	329	328
Norway.........	37	18
Finland........	130	195
Austria........	207	109
Switzerland....	21	1
Spain..........	281	713
Portugal.......	80	8
Turkey.........	12	12
Yugoslavia.....	18	15
German D.R.....	100	70
Czechoslovakia.	36	12
Hungary........	28	8
Poland.........	48	37
USSR...........	*	---
Romania........	293	41
Bulgaria.......	*	---
Sub-Total	1,622	1,567

Source: Compiled by American Iron and Steel Institute from reports of the U.S. Department of Commerce.

* = less than 500 tons. 500 or more rounded to 1. All figures rounded to nearest thousand; totals may not add due to rounding.

--- = Nil.

# = Does not have steel mill, per "Iron & Steel Works of the World" (1983)

Mr. Wright. Well, thank you.

I have one or two questions and they relate to the steel business. As you know, the President this spring did not extend the voluntary automobile restrictions with Japan, import levies. Now, of course, automobile manufacturers, domestic, are still a major market for your steel, the steel that your company makes and other steel companies make. And Japan has responded by significantly increasing the number of automobiles that it is importing into the United States.

What would have been the effect if the President had extended this agreement with Japan? If it had eliminated the number of Japanese automobiles coming into the United States, would that have been of significant assistance to the steel industry?

Mr. Meagher. Absolutely. The highest profit part of our business right now, Congressman, is in flat rolled steel, which is the major component that goes into automobiles. And that is, in certain respects, doing well from the domestic side because the automobile industry is doing better than it was. But it—I do not have any numbers on it, but it has been a major factor in the continued decline of steel, that we simply do not have markets for our products. All the production of steel in the world is not going to do any good if you have nobody to sell it to. And the Japanese do not buy steel from us to put in the Toyotas that they make over in Japan.

Mr. Wright. So your judgment—without trying to testify for you—is that the President made a serious mistake in not extending those voluntary auto quotas with Japan last spring, at least as it affects our domestic steel industry?

Mr. Meagher. I think it would have been very useful if he had extended those; yes.

Mr. Wright. Do you have any idea why he decided not to do that?

Mr. Meagher. I really have not focused on that personally. I know the administration's position was that there were a number of factors that went into that decision. My own view of it was that they did not get anything for it. And if you are going to give something, you ought to get something; and they did not get anything for it—without second guessing the substance of the decision. But I think it is a fair statement to say that if you are going to make a deal, you ought to get something on the other side. And my impression is that they did not get anything. As a matter of fact, as I recall the news stories at the time, there were a couple of slaps in the face, is what we got, because the Japanese didn't even adhere to the levels that the administration contemplated they would adhere to in the absence of an agreement.

Mr. Wright. I would like to call on other members.

Mr. Boehlert. Mr. Meagher, I have just one quick question before I yield to my colleagues.

It seems to me that I read recently that the past year has been the best year for the domestic auto industry in the past decade—15 million autos and trucks. It would seem to me that they are on the upswing in the past year rather than a downswing.

Mr. Meagher. Well, that is true. However, My recollection is that they feel that they are about to level out on the production and on the sales; that there was a hiatus of sales that took place when the recovery started about 2 years ago, and that the market has about absorbed the level of increases that it would historically absorb; and that people will not be buying new cars for another 4 years, or something in that nature.

Mr. **Boehlert**. So they have had a good market because——

Mr. **Meagher**. They have had a very good market. They have a lot of people who had not bought cars in a number of years because of the recession. The recovery started; a whole bunch of folks went out and bought cars. And as the people at Chrysler have told me, the differential from 1986 on, between the level of imports that were coming in from Japan under the voluntary agreement and the level that will come in in the absence of the voluntary agreement is going to be a major factor in the ability of those companies to do well.

They also have said it goes to the price of the cars, the kinds of cars. And that, obviously, affects the profitability or their ability to compete.

So I think what you say is true. However, what they were not concerned about was 1985. They were concerned about 1986 and beyond. And if you note, in recent weeks there has been significant reductions in—or offers of interest subsidies and what not, to buy cars. And one of the reasons was that it was starting to fall off and the auto companies are attempting to keep this regained market share.

I think your point is well taken. But I think what they were looking at was 1986, 1987, and 1988. That is what they were concerned with.

Mr. **Boehlert**. Thank you.

Mr. **Wright**. Mr. Watkins.

Mr. **Watkins**. I have no questions. Good statement, Mr. Meagher.

Mr. **Wright**. Mr. Frost.

Mr. **Frost**. Mr. Chairman, I think that my question falls logically at this point. You touched on the area that I wanted to get into, and one of the problems that I have. But I would like to follow it up one degree further.

Where I come from, we have a lot of specialty steel manufacturers. And the problem is, if we deal with the specialty steel industry, and their customer, let's say, a ball bearing manufacturer, domestic production declines, you can do anything you want with the specialty industry, but their business declines as a result of that.

The question I have is: we focus on steel, which almost always, or always goes into another product, are we not missing the boat, and don't we really have to deal with our trade problems in a generic way rather than—we as a Congress; I am not talking about the administration. We are Congressmen. We could wish that the administration would make a reasonable deal when they phase out auto imports, restrictions, or whatever. But shouldn't we as a Congress really pay attention to the generic trade problem rather than the sectoral one?

Mr. **Meagher**. I think you have to pay attention to both. You are talking about downstream dumping, for example, and we have talked about the impact of trade on refineries. We have a tremendous reduction in refineries in this country because crude oil is being refined overseas and shipped in, and domestic refiners are being cut out. The same thing is true in other areas.

I agree with you, and I think that one step that could be taken—and your colleague, Congressman Schultz of Pennsylvania has legislation that is introduced to do this—is to require that we negotiate with countries bilaterally, on a country by country rather than a product by product basis.

Right now, what happens is that we tend to do what you are saying. We tend to have a negotiation on steel, a negotiation on ball bearings, and a negotiation on textiles. Well, you can get nickeled and dimed to death, and that is what has happened.

What does not occur under those circumstances in the foreign country that in fact occurs here, because this is our market—what does not occur under the existing situation is that the political apparatus of those countries, the governmental—and I use the term synonymously—does not have to force choices between the producers of various commodities in that country. We have to do it here because it is our market. But what the sectoral negotiating approach lacks is a commitment or a forcing of decisions to be made for rationalization of the steel versus the textile industry, in Taiwan, for example. If you say, look, you are only going to have a deficit of such-and-such a level, but then they are going to have to figure out where they want to bring it in.

Now, Congressman Gephardt's legislation is an attempt to deal with that in a different way. What his bill provides is that any country that has 165 percent—as I remember the number—deficit over what we export to it—in the absence of making certain of some things like a 5 percent good faith effort reduction, they will end up with a major import fee. And it attempts to get at the question of the overall, whether it is ball bearings or steel, in a way that is similar to Congressman Schultz' bill.

But I agree with you. That is a specific thing that Congress can look to as a way to approach our negotiations in the trade arena.

Mr. WRIGHT. Mr. Lundine, we do have quite a few other witnesses, and I would ask that we limit our questions if we can.

Mr. LUNDINE. Just two real quick questions.

That was real good testimony, Mr. Meagher. I appreciate you being here.

Let me play devil's advocate. Why can't the steel industry compete? To put it another way, why do we need negotiated settlements with these countries, holding it to 20 percent?

Mr. MEAGHER. How long have you got?

Mr. LUNDINE. Well, I've got about 30 seconds.

Mr. MEAGHER. That is a valid question and there are a number of reasons. One is the subsidies that take place overseas. Wendell and I were talking about this a few minutes ago. It is cheaper for most of the foreign countries of the world, particularly the industrialized countries that have very expensive social insurance systems, to subsidize their industries than it is to put the workers out on the street. Much cheaper.

You know, we are the most profitable steel industry in the world. That means that we lose less money than the foreign firms. They don't need to make money because of the subsidies they receive.

Another reason goes to our tax system, and our credit system. The cost of capital in this country is simply outrageous compared to what it is in the rest of the world. Most of it is subsidized in the rest of the world. And the amount of money that it takes to deal in a commodity like steel is not nickels and dimes, as you are well aware. You are talking about $165 million to put a caster in, and that is a cheapy. So I think that our tax system and our credit system do not deal with that.

I think the other thing is, obviously, that there are problems of labor rates. And I do not mean to give the unions a hard time. I think the unions have been very responsible in that connection. But that is a historical problem.

The last thing—and I know the chairman wants to move on. The last thing, I think, is the regulatory question. I'm just giving an example of a cost factor.

In our company, we have twice as many people on pension as we do working for us. We bought two companies that probably would have gone bankrupt. And they amount to 61 percent of our pension costs. Had we not bought them, the Government would be paying for that. It is $180 million a year. It does not go into a caster. It does not go into an electric furnace. It does not go into modernization at all, or to the market.

So I think that there are a whole series of reasons. The main one is the cost factor involved in steel is so high compared to opening even a semiconductor plant, for example. Those are among the reasons we are not able to compete.

Mr. LUNDINE. So you are really saying you cannot get a level playing field when you have to opt for a managed trade?

Mr. MEAGHER. Yes.

Mr. WRIGHT. Mr. Chapman.

Mr. CHAPMAN. Mr. Meagher, thank you. And I appreciate your comments.

Let me ask you again, very briefly, what has been the experience of LTV Steel in the area of the responsiveness of any complaints you may have filed as to unfair trade practices, and to the timeframe—the fuse, if you will—that you are finding in our ability through trade negotiations and handling that process; how long is it taking and what impact is it having on you in the meantime?

Mr. MEAGHER. Well, the cases are long and they are expensive. They take a long time under the existing law. And, clearly—and the Government agrees—it has been our experience and the experience of others that those timeframes and procedures need to be improved so that we can deal in a timeframe in which we are able to still stay alive. I always think about the Green Bay Packers. They said they never lost a game; they ran out of time. And to a certain extent, that is our problem.

The responsiveness question is mixed. We feel that the administration, this administration, has been fairly responsive in trying to get these negotiated settlements. However, we have 50 percent of the program working. But that isn't sufficient. And, at this point, we do not think that the results merit sitting back and doing nothing; we think we have to move forward with some sort of legislation.

The Congress said, in the steel legislation, what it would do to nail down this program. So whether it is your legislation, which I think is a very good bill, or some other things we were looking at, we think that the time is now to do this before Congress adjourns this year. It is an oversight matter. We would urge you, as Democrats, to put it in your recommendations.

Mr. CHAPMAN. Would it be fair to say that after a year—395 days, as you have described it—and the import level percentagewise has not decreased——

Mr. MEAGHER. Right.

Mr. CHAPMAN [continuing]. That a continuation of import levels at that level or, in fact, if there are no more voluntary agreements negotiated which would impact that; but the erosion of capital in your industry, the steel industry, is enormous.

Mr. MEAGHER. Absolutely.

Mr. CHAPMAN. And delay would, in fact, be devastating to the industry. Would that be a fair comment?

Mr. MEAGHER. It is not only devastating to the industry; it is going to be devastating to the budget because if there are continued closures, shutdowns, or whatever, those payments—those costs are going to be picked up not just by us, but by the Government in the form of transfer payments and the reduction in revenues, both at the Federal, State, and local levels, as I mentioned.

Mr. CHAPMAN. Thank you, Mr. Meagher.

Mr. WRIGHT. Mr. Meagher, I have one closing comment, and then we will call the next witness.

Mr. Gephardt and I are both conferees on the Gramm-Rudman proposal that is going on right now, regarding balancing the budget, and, of course, you have indicated the importance of reducing the deficit. I want you to be aware, as a major defense contractor, that the position of the Senate conferees is that virtually all defense contracts will be subject to sequestration under that proposal, and in response to a specific question from me yesterday, that the B-IB contract would be subject to sequestration if Gramm-Rudman is enacted into law, and it will——

Mr. MEAGHER. Thank you for asking that question, and I will further be in touch with you.

Mr. WRIGHT. Thank you.

The next witness is Frank Pitts, president, Pitts Oil Co., Dallas, TX; one of the leading and most respected independent oil men in this part of the United States.

Mr. Pitts.

STATEMENT OF L. FRANK PITTS, PRESIDENT, PITTS OIL CO., DALLAS, TX

Mr. PITTS. Mr. Chairman, Majority Leader Jim Wright, I speak as an independent oil and gas producer with more than 40 years of experience in this industry. There is serious concern in our country today over the mounting trade deficits of recent years and the enormous Federal budget deficit.

From my perspective, I would have you consider the following concepts:

One, the present level of imports of crude oil are essential to the strength and vitality of our Nation's economy.

Two, significant increase in this import level and the growing dependency upon foreign oil can be and at all costs must be avoided.

Admittedly, American oil and natural gas producers hold a two-sided position on oil and natural gas imports.

I include natural gas in this discussion of petroleum and petroleum products because oil and natural gas are essentially bound together and interrelated in their source and production; and, also, may be exchanged in many of their uses. Most of the oil consumed in the United States in nontransportational uses can be displaced by natural gas in a few months' time. The fact remains that there is no known available substitute for oil and oil products for transportation purposes. In that connection, I would add that oil and gas provide some 70 percent—I repeat—70 percent of the total energy requirements of the United States.

Energy is the lifeblood of an industrial nation. And we all know that the United States is the No. 1 industrial nation in the world and, therefore, energy is tremendously important.

From a high of some 9 million barrels a day of oil being imported in the late seventies, we have witnessed a decline of some 4 million barrels of oil and refined products in recent years. The present level of some 5 million barrels of oil and refined products deserve comment.

Of course, from a producer's standpoint, I would like to see this level of imports of crude oil significantly decreased by larger volumes of American production. I specify crude oil because the importation of refined products really presents another issue.

For many years, I have maintained that the demise of oil and natural gas industry in the United States, like Mark Twain's death notice, has been grossly overstated. In the 1970's, I argued that declines in domestic reserves were due to Federal regulations enforcing unrealistic prices, discouraging drilling, investment and activity, and encouraging wasteful consumption. The declines were not due to the absence of drilling prospects. I argued that, given proper incentives, American producers could find significant new reserves. Such arguments were true then and are now. Drilling increases did occur, and we increased reserves and production. This map which is attached to my testimony, is a map that we put out several years ago that shows the basinal areas, tremendous basinal areas, where oil and natural gas may be found in this country. This map shows that all the oil and natural gas produced since 1859, when oil was first discovered, has come from 2 percent of our potential oil and natural gas sediments. Ninety-eight percent remains to be tested by drilling. Three million square miles, onshore and offshore, await the drilling bit. Only 3 percent of our offshore areas have ever been leased for oil and gas exploration.

[The map referred to above may be found in committee files.]

Mr. PITTS. Another research project of our company, made in 1980, is reported on the back of the map. This research reveals that, despite the small percentage of decline in discovery per foot drilled, we can, with a modest increase in drilling activity over a period of 20 years, discover new reserves of oil and barrels equivalent in natural gas which would increase our Nation's reserves to

210 billion barrels of oil, or barrels of oil equivalent. We now have some 50 billion barrels of oil and equivalent natural gas in known reserves.

In short, we are currently producing in this country some 8.75 to 9 million barrels of oil per day, bobbing up and down in that range. Our enormous demand makes our present level of imports of crude oil necessary.

We have the prospects of further increasing domestic oil production to such a degree that we do not need to further increase imports of crude oil.

It is imperative that proposals for tax reform relating to oil and natural gas industries be viewed in this light. The proposed legislation used for markup in the Ways and Means Committee today, if enacted into law, would be catastrophic for the domestic economy. Our 1984 trade deficit was some $123 billion. And of that amount, petroleum imports amounted to approximately 60 billion, or one-half of our trade deficit. Should Staff I or, if you prefer, the Rosty I proposal become law, tremendous decreases in new domestic reserves and production will result. Now, this will be caused by the dramatic decrease in domestic drilling that will certainly follow its adoption. The loss of new reserves must be made up by significantly increasing our level of imports. The loss of new reserves and production, resulting from the decrease in drilling, and the subsequent increase in imports during the first 5 years that this bill would be law would increase the portion of our trade deficit attributable to imported oil. This increase in the trade deficit will be in the range of $200 to $250 billion in 10 years, over and above what it is now, which is running over $60 billion right now. And that is without any consideration for increased consumption.

Let me justify this last statement. Historically, independents drilled 90 percent of the exploratory or wildcat wells drilled in this country, and 87 percent of all wells drilled. My company is conducting a survey of the probable impact of Rosty I that is before the Ways and Means Committee at the moment, on future drilling activity of independents. Now remember, we drill 90 percent of all wildcats or exploratory wells and 87 percent of all wells. The respondents thus far—and I cut it off there; we still have more. But the respondents thus far, 300 from 13 States—and, by the way, we started this 2 weeks ago yesterday—all are independents that have answered, the 300, representing 12 percent of all domestic wells drilled in 1984 by independents. Thus, I think you will agree that it is a valid statistical sample.

The results are frightening. The survey indicates an 84-percent reduction in exploratory drilling and a 68-percent reduction in development drilling. If we put it in proper perspective, it really means a drop of drilling in this country, roughly 66⅔ percent from what it is today.

In the oil industry, we have been accused of not paying our share of tax. But the oil industry pays a higher effective Federal tax rate than the average of any other U.S. industry. I have a chart, and it is attached, which shows what taxes that we pay, the industry. And that is attached to my testimony.

We need an industrial climate free from fear of crippling taxation and the opportunity to compete fairly in the marketplace.

From the present level of some 2,000 rigs--a little less at the moment—we need something like 3,200 to 3,500 rigs working in order to replace the reserves now being produced, and hold imports of crude oil to the present levels.

The production decline resulting from enactment of tax proposals diverting capital from oil and natural gas drilling activity will not only worsen our trade deficit problem, but will make the United States more and more dependent upon imports from the Middle East and North Africa. Now, this area of the world contains 74 percent of the free world's proven reserves. There alone can be found the unused production capacity to compensate for significant declines in American production. Eighty percent of the free world's unused production capacity is in these areas. You may think we can reach down to Mexico or up in Canada and bring in a lot more oil. That is not true. We do not have the capacity.

Finally, while increasing the volume of oil imports will exacerbate the trade deficit, more importantly, it threatens our national security. American defense is the No. 1 claim of our oil supplies in peacetime, and in wartime, the immediate demand would quadruple.

Sound energy policy dictates that everything possible be done to increase American production of oil and natural gas. It makes no sense, at least to me, to build machines that cost billions and even hundreds of billions, for defense and fail—I repeat—and fail to provide ample dependable supplies of fuel to move them. American production is the only such dependable supply; not in the Middle East. I ask each of you, do you think that is a dependable area for us to look forward to to have our oil in a crisis? I don't think so.

Thank you very much.

[The prepared statement of Mr. Pitts follows:]

PREPARED STATEMENT OF L. FRANK PITTS

Mr. Chairman (Majority Leader Jim Wright), I speak as an independent oil and natural gas producer with more than 40 years experience in this industry. There is serious concern in our country today over the mounting trade deficits of recent years and the enormous Federal budget deficit.

From my perspective, I would have you consider the following concepts:

1. The present level of imports of crude oil are essential to the strength and vitality of our Nation's economy.

2. Significant increase in this import level and growing dependency upon foreign oil can be and must, at all costs, be avoided.

Admittedly, American oil and natural gas producers hold a two-sided position on oil and natural gas imports.

I include natural gas in this discussion of petroleum and petroleum products because oil and natural gas are essentially bound together and interrelated in their source and production and also may be exchanged in many of their uses. While most of the oil consumed in the United States in nontransportation uses can be displaced by natural gas in a few months time, the fact remains that there is no known available substitute for oil and oil products for transportation purposes. In that connection, I would add that oil and natural gas provide some 70 percent of the total energy requirements of the United States.

To put this in perspective, think what it would mean if imports of oil were cut off by some hostile action by so little as 25 percent—some 1 million plus barrels per day. Many cars, buses, cabs, and planes would come to a screeching halt. Jobs would be in jeopardy. Long lines at service stations, waiting for what fuel may be available, would be commonplace.

From a high of some 9 million barrels of oil being imported in the late seventies, we have witnessed a decline to some 4 million barrels of oil and refined products in recent years. The present level of some 5 million barrels of oil and refined products deserves comment.

Of course, from a producer's standpoint, I would like to see this level of imports of crude oil significantly decreased by larger volumes of American production. I specify crude oil because the importation of refined products presents another issue.

For many years I have maintained that the demise of the oil and natural gas industry in the United States, like Mark Twain's death notice, has been grossly overstated. In the seventies, I argued that declines in domestic reserves were due to Federal regulations enforcing unrealistic prices discouraging drilling investment and activity and encouraging wasteful consumption. The declines were not due to the absence of drilling prospects. I argued that, given proper incentives, American producers could find significant new reserves. Such arguments were true then and are now. Drilling increases did occur and we increased reserves and production. This map, which I show you now, graphically demonstrates the fact that the United States has tremendous basinal areas where oil and natural gas reserves may be found. This map shows that all the oil and natural gas we have produced since 1859 has come from only 2 percent of our potential oil and natural gas sediments. Ninety-eight percent (98%) remains to be tested by drilling. Three million square miles, onshore and offshore, await the drilling bit. Only 3 percent of our offshore areas has ever been leased.

Another research project of our company, made in 1980, is reported on the back of the map. This research reveals that, despite the small percentage of decline in discovery per foot drilled, we can, with a modest increase in drilling activity over a period of 20 years, discover new reserves of oil and barrels equivalent in natural gas which will increase our nation's reserves to 210 billion barrels. We now have some 50 billion barrels of oil and oil equivalent, natural gas, in known reserves.

In regard to imports of refined products, it is well to note that the American refining industry, the most sophisticated and technologically advanced in the world, is in the midst of the worst shakeout in its history. While many diverse factors have combined to contribute to this situation, refined product imports have increased steadily since 1981. Each barrel of imported gasoline displaces two barrels of U.S. refining capacity. If the United States does become a dumping ground for foreign petroleum products, domestic oil producers, as well as refiners, will suffer, resulting in still lower domestic exploration and production. Other speakers, I understand, will treat these matters at greater length.

In short, while we are currently producing in this country, some 8.75 to 9 million barrels of oil per day, our enormous demand makes our present level of imports of crude oil necessary.

We have the prospects of further increasing domestic oil production to such a degree that we do not need to further increase imports of crude oil.

It is imperative that proposals for tax reform relating to the oil and natural gas industry be viewed in this light. The proposed legislation used for markup in the Ways and Means Committee today, if enacted into law, would be catastrophic for the domestic economy. Our 1984 trade deficit was some $123 billion. Of that amount, petroleum imports amounted to approximately $60 billion or one-half of our trade deficit. Should Staff I or, if you prefer, the Rosty I proposal become law, tremendous decreases in new domestic reserves and production will result. This will be caused by the dramatic decrease in domestic drilling that will certainly follow its adoption. The loss of new reserves must be made up by significantly increasing our level of imports. The loss of new reserves and production, resulting from the decrease in drilling, and the subsequent increase in imports during the first five years, will increase the portion of our trade deficit attributable to imported oil. This increase in the trade deficit will be in the range of $200 to $250 billion in only 10 years, over and above what it is now, without any consideration for increased consumption.

Let me justify this last statement. Historically, independents drill 90 percent of the exploratory (wildcat) wells drilled in this country and 87 percent of all the wells drilled. My company is conducting a survey as to the probable impact of Rosty I on future drilling activity of independents. The respondents, 300 thus far from 13 States, all independent producers, represent nearly 12 percent of all domestic wells drilled in 1984 by independents—thus, I think you will agree this is a valid statistical sample. The results are frightening. The survey indicates an 84 percent reduction in exploratory drilling and a 68 percent reduction in development drilling. If we assume no reduction in consumption, it is easy to translate this into materially increased importation from foreign sources and the resulting increase in the trade deficit. Are we, truly, our own worst enemy?

The oil industry pays a higher effective federal tax rate than the average of any
other U.S. industry. We need an industry climate free from fear of crippling tax-
ation and the opportunity to compete fairly in the marketplace. From the present
level of some 2,000 rigs we need something like 3,200 to 3,500 rigs working in order
to replace the reserves now being produced and hold imports of crude oil to present
levels.

The production decline resulting from enactment of tax proposals diverting cap-
ital from our oil and natural gas drilling activity will not only worsen our trade
deficit problem but will make the United States more and more dependent upon im-
ports from the Middle East and North Africa. This area contains 74 percent of the
free world's proven oil reserves. There alone can be found the unused production
capacity to compensate for significant declines in American production. Eighty per-
cent (86%) of the free world's unused production capacity is in these areas, the tin-
derbox of the world.

Finally, while increasing the volume of oil imports will exacerbate our trade defi-
cit, more importantly, it threatens our national security. American defense is the
number one claim on our oil supplies in peacetime. In wartime, the immediate
demand would quadruple.

Sound energy policy dictates that everything possible be done to increase Americn
production of oil and natural gas. It makes no sense to build the machines for de-
fense and fail to provide ample, dependable supplies of fuel to move them. American
production is the only such dependable supply.

Mr. **Wright**. Thank you.

Yes; Mr. Watkins has a question he would like to ask.

Mr. **Watkins**. I would like to thank the leader for allowing me to say thanks for that testimony. It is better than anything I have heard in a long time. I am going to take it back and spread it among a lot of friends.

I want to say I have to go catch a plane. But I waited to hear your testimony because our mutual friend, Mike Cantrell, would not have forgiven me; that's one thing. And let me tell you another reason is I want you to know that Mike Cantrell, who is from my hometown, Ada, has a great deal of respect for you and what you stand for and the work you are doing. I talked to him this morning, and I did not know you were going to be one of the witnesses. I was quite sure he would probably come down. But he was not able to do that, so he is sending his plane down so I can fly back to Oklahoma. So thank you. I say ditto to what you have said.

And, Mr. Leader, I appreciate your allowing me to take this moment. I have to go catch that plane.

Mr. **Wright**. Mr. Watkins, thank you for being here with us. You have contributed to the value of these hearings, and we are greatful that you have shared an amount of your time on a weekend when you could have been in your own district. So thank you very much.

What Wes Watkins says with respect to those who know Frank Pitts in the industry in Oklahoma reflects what everyone feels about this witness. I think many are familiar with his record and his integrity. Mr. Pitts, you are recognized as a spokesman and knowledgeable, balanced and a reasoned person in the oil industry among the independent producers. You are respected in and out of the oil industry.

That makes some of these statements contained in your prepared presentation all the more frightening. I think any of us on the panel would recognize that oil and petroleum products are accounting for half of this trade deficit that we are talking about. The very dependency that any nation has upon energy sources, and the oil and natural gas accounting for 70 percent of our total energy needs

BEST COPY AVAILABLE

in the United States; that a necessity to provide a climate conducive to exploration, ventured risk for the independent segment of the industry that goes out and drills the holes and finds the reserves, is very important for the future of the Nation.

I was not aware of the feeling that you seem to reflect as a result of the survey conducted among some of your colleagues of the apprehensions felt with respect to the tax proposals. Of course, the tax policy has bearing on every industry and, specifically in this case, on those who go out and lay the capital necessary to do the exploratory drilling.

But when you say that 84 percent reduction in exploratory drilling, 68 percent reduction in development drilling would result from some of the proposals pending before the committee, that sounds catastrophic to me. I am curious to know specifically which provisions you have in mind.

The first plan developed by the Treasury Department, by design, would have been more hurtful to the industry than the second plan presented. The one that is pending now, you feel would result in this kind of dire consequences. Would you care to elaborate upon which specific provisions in that plan that would result in this much reduction?

Mr. PITTS. Well, frankly, I can tell you my ideas. Now, I cannot tell you the ideas of these 300 other people, but they must have arrived at somewhat similar conclusions to what I have.

Looking at it realistically, the average independent producer owns his own business. He may not participate in over 10, 20, 30, or 40 wells per year. In my case, I participate in from 50 to 70 wells per year, and have for a number of years.

Our assets—independents, now—not cash in the bank, but oil and gas in the ground, that is where our assets are if we are successful producers. And, historically, as we brought our products to the top of the ground and sold them, we have reinvested that cash, that revenue in new drilling. The treatment of intangibles not quite as bad, looking at it—part of the intangibles. And, by the way, that name "intangibles" is confusing to many people, I understand, in Washington—in fact, one Senator. I was testifying before the Senate Finance Committee, and he kept harping on the oil—well, what did he call it. But, anyway, intangibles.

I did not understand afterwards. I said intangibles is not a thing in the world but the cost of drilling a well; every coverable part of drilling and completing a well.

Well, anyway, as I see it, intangibles, being able to charge off the costs; the cash costs by an independent of the drilling of a well in the year in which he spends his money is tremendously important, if he has to capitalize and amortize it, as the Rosty bill suggests. So he gets a chargeoff of 25 percent the first year, 38 percent the second, 33 percent the third, and the balance on the fourth year. That makes it difficult. That automatically cuts his cash flow because part of that income that he has, that he would normally drill and charge off the cost of the drill, he has to capitalize and amortize over the period. So it reduces his working capital—that's one—on intangibles.

The other things, extending the amortization of the equipment, we have had that before 1981, where it took 10 years; that is not catastrophic. But this minimum tax proposal, minimum tax, quite frankly, it is a tax on expenditures. And taking away the net income factor so that starting with the first dollar that a producer spends on intangibles, and if the proposal becomes law, as he amortizes that intangible expense, he gets a 35 cents—35 percent deduction on his tax. But on the other hand, he creates—by that deduction and amortization, out of that 35 cents, he creates 25 cents minimum tax on his expenditure, on his dollar expenditure. Therefore, for 10 percent, the difference between 35 cents, that he could charge off and amortize, and 25 cents tax on liability, minimum tax that nothing can be charged against; losing 10 cents in a risky business.

That is why anybody that thinks at all, when they analyze it, they will feel like these 300 that have answered, Mr. Wright. Those are some of the reasons. That minimum tax is devastating.

Mr. WRIGHT. Let's put it in perspective. Again, I have been familiar with that type of tax—that occurred in 1976 in the conference committee on the tax bill and it was never intended, I am advised, by Members of the House and the Senate that the language was inserted during the period of conference. Both the House and the Senate had no such provision. Therefore, for a brief period independent drillers, if they were not corporations, could not deduct the "intangible" tax expenditure.

Mr. PITTS. That's right.

Mr. WRIGHT. Some of them talked with the newly elected President in 1977, in January, I think; and talked to the newly appointed Energy Department. The result of that and their recommendations and actions in Congress, who restored that right.

But what we are saying is this, I think. Let us compare the oil drilling business, the land exploration business with another business, some typical business. You go out and run your geological tasks and try to make such adjustments as you can and find a place where you think you have a good chance to produce oil or natural gas if you drill a well to a certain depth, and you authorize the driller to go out there and start drilling. You don't know what it is going to cost. You don't know what kind of rock or soil he is going to run into, how many bits he is going to break or anything of the kind, but you authorize him to go to a certain stratum. If he does not hit it there, you perhaps authorize him to go deeper to another stratum.

Mr. PITTS. Correct; oftentimes.

Mr. WRIGHT. You don't know how much it is going to cost. But you drill that hole and you may find the oil or gas and you make money. In any event, it is the cost of doing your business, an inescapable cost. You cannot operate without doing that. Right?

Mr. PITTS. That is correct.

Mr. WRIGHT. Now, let's——

Mr. PITTS. And you cannot find oil or gas without drilling wells.

Mr. WRIGHT. Well, that is certain. I don't know any other way. But let's compare this now with another kind of business. Let's say that somebody has a product and wants to sell the product, and he does a lot of market testing. And he does a lot of refining on the product, tries to get it into shape; produces it, manufactures it. And then he hires a salesman or several salesmen to go out and find a customer. And he prints some material that is supposed to describe what good things his product will do for the customer. And he goes out and he finds a customer or he does not find a customer. All this he has done in an effort to find oil, as it were, which is to say, a customer, is his cost of doing business. So that's deductible to the business. Now that does not really differ, does it?

Mr. Pitts. No, sir.

Mr. Wright. I've described a parallel situation. In the beginning, if he makes a sale, sells some of that product, then he is going to have to pay taxes on how much money he draws in over and above what he spent to get the sale. If you are spending this money drilling the wells trying to get some oil and gas, and you drill three holes, and maybe one of them drilled is good, then you are deducting the cost of drilling against what you make on that well. And if you can make more, you are going to stay in business, granted if you are able to deduct what you spent to get there. Therefore, the tax on intangible drilling costs, as they have been defined in this loose terminology, is not a tax on what you make; it is a tax on what you spend. Is that right?

Mr. Pitts. You mean the minimum tax?

Mr. Wright. Yes.

Mr. Pitts. Yes, that's right.

Mr. Wright. But any tax on the intangible drilling or——

Mr. Pitts. That's correct.

Mr. Wright [continuing]. Deduction is your advantage to——

Mr. Pitts. Correct.

Mr. Wright [continuing]. And deduct from your profit what you spent to get the profit.

Mr. Pitts. That's right.

Mr. Wright. It's a tax not on what you make, but on what you spent.

Mr. Pitts. That's right.

Mr. Wright. Now, you think that particular requirement that you're going to be able to charge off 35 percent of this year's cost against this year's income——

Mr. Pitts. It's 25 percent.

Mr. Wright. It's 25 percent after——

Mr. Pitts. Proposal; yes.

Mr. Wright. Then it comes down to 10 percent if you claim excess profit tax under the scenario you described.

Do you think this would sufficiently discourage the independent driller and discourage him to take a chance and put up some money and buy an interest in that exploratory venture; that it would cut drilling by this much?

Mr. Pitts. Yes, I certainly do. I am certain that 300 other people that drilled 12 percent of all the wells drilled in the United States, that answered this survey in the last 2 weeks, that I have just told you about, think likewise.

Mr. Wright. Mr. Boehlert.

Mr. Boehlert. No questions, Mr. Chairman.

Mr. Wright. Mr. Frost.

Mr. Frost. Well, I have had the chance to listen to your testimony. And I had visited with you before as to what you were going to testify about. I think that—I know the point has been made, but

Mr. Pitts is really one of the authorities in the oil industry in our State and has been very active nationally in a number of the organizations involving the oil and gas industry. Your testimony is very helpful, as always. You have followed these matters closely over the years, and you have been right, generally, in the things that you have told us and Congress about where the industry is heading. So I appreciate your appearance today and your statement. I think it is very helpful to this committee.

Mr. PITTS. Thank you, sir.

Mr. WRIGHT. Mr. Gephardt.

Mr. GEPHARDT. Mr. Chairman, I will not ask questions, but I do appreciate your testimony. It has been very useful. And as a member of the committee that is considering the tax law, I find that your comments are well taken. I have appreciated your willingness to do the work to put the testimony together. A lot of people in the industry claim to speak for the industry and they have not done the kind of homework that you have done. It is very useful and I appreciate it very much.

Mr. WRIGHT. Mr. Alexander.

Mr. ALEXANDER. Mr. Chairman. I, too, join my colleagues in expressing my appreciation for you taking the time out of your busy life to be here. I would like to ask a question which I am compelled to ask. I am convinced by your testimony that you know what you are talking about and that the proposals that are before the Congress would discourage further drilling.

How do you think that Congress can be so wrong if you are so right?

Mr. PITTS. I think they are out of touch with the reality of what the industry is all about.

Mr. ALEXANDER. And how did this happen? You know your way to Washington. You have appeared before committees.

Just as a matter of curiosity, one of the reasons we get out on these field hearings like this is to find out what people like you are saying, what you know. And it is always my experience that I learn a lot more from these hearings than people learn from me. But I am appalled that the Congress can be wrong on an issue so fundamental to the needs of our Nation.

Mr. PITTS. Well, I don't know why they are wrong, but they—according to my opinion and the 321 people that have filled out the questionnaire, they are wrong, to the extent that those people say they are going to reduce their drilling, exploratory drilling.

And by the way, if you do not drill exploratory wells or wildcat wells, you do not find new fields. You have to do that. They would reduce their drilling 84 percent there and then 16 percent in others.

I will tell you one thing. I was amazed in testifying in June of this year before the Senate Finance Committee on tax legislation, a Senator kept harping on oil breaks and oil subsidy and all this. And we got to intangibles and one of the Senators kept probing me until I finally said, wait a minute; let's analyze it—like you were talking about business, Mr. Chairman.

I said, I was born and raised on a farm. And a farmer, when he buys seed and fertilizer and hires labor, as we did on our little farm, all those items are expense. Now, the equipment that we bought, we had to amortize the cost of that over a period of time, until their expenses were expenses that we paid for, if we paid for them, and we did, that we charged off for tax purposes in the year in which we spent the money. Now, intangibles are not a doggone bit different than that, the cost of drilling a well, such as clearing location and moving a rig in and moving it out, the drilling of the hole, the labor cost, and the mud, and the fuel to run the rig. Those are things that are irrecoverable type of things.

Now, if we set pipe on the well, that's tangible; we can see it and look at it. If we set pipe, that is steel. And then we put pulp on the wells; that's oil. And we put tanks, a separator, and what have you. Those are things that we capitalize and amortize over a period of time, and not a darn bit different, not a darn bit different.

I was amazed that people, intelligent people, one in particular from a State that has no oil and gas—I think the truth is that our industry has done a very poor job of public relations in explaining to the Congress what our industry is all about. I will be very frank with you, to answer your question.

Mr. **Alexander**. Thank you very much.

Mr. **Wright**. Mr. Lundine.

Mr. **Lundine**. Mr. Chairman, I know that the time is going, but I would like to ask one question.

Mr. Pitts, I come from the only part of New York State that has any oil and gas, mostly gas, production. So I am not unsympathetic to what you are trying to say.

Incidentally, the major oil companies have long since abandoned Pennsylvania and New York. So all we have is independent producers in our area.

But if this chart here is correct, and the oil industry pays a higher effective Federal tax than other industries—and I don't doubt that it is—why would a minimum tax be so burdensome on the oil industry as opposed to others? I thought the idea of a minimum corporate tax was to get at, for example, banks, that pay an average of 2 percent of their earnings in taxes, so as to say, well, everybody is going to pay 15, or whatever the percentage is, of minimum tax, regardless of all the credits and deductions that they might have. If the energy industry is already paying a higher effective tax, why are you hurt by a minimum tax?

Mr. **Pitts**. It would increase the amount of tax you would be paying. But it's a tax on expenditures. And, by the way, if you wish to check—and I hope you do—the accuracy of those figures that are on the chart, I would appreciate your doing it. If you find they are inaccurate, I would love to hear it. I feel they are accurate.

Just to answer your question, we are already paying a higher tax average than any other industry, and that would just be an additional tax. The minimum tax on intangible drilling expense is a tax on expenditures. That is what we were talking about.

Mr. **Wright**. I think we understand somewhat differently the use of the term "minimum tax" because there is no such specific proposal that any of us is talking about right now. Each of us has in his mind a different concept of what that particular thing might mean. But in your reference—and I also think in Bill Alexander's reference to why could Congress be so wrong—may be answered by the fact that Congress has not yet passed the bill to which we refer, with that particular provision.

It is altogether conceivable to me, and I think likely and I would say highly desirable, that before it comes out of the committee that be changed.

We thank you very much for your cooperation.

Mr. PITTS. Thank you for allowing me to talk.

Mr. WRIGHT. Our next witness is Early Clowers of Houston, TX. Mr. Clowers is active in the steelworkers union. He is president of—as I understand it, you are president of the Armco——

Mr. CLOWERS. Armco; the one that's shut down, or was.

Mr. WRIGHT. You have been involved in efforts to try to help people thrown out of work in your union and are familiar with the effects upon their lives and so forth. We would certainly like to hear from you.

STATEMENT OF EARLY CLOWERS, HOUSTON, TX

Mr. CLOWERS. Thank you, Mr. Chairman and members of the committee.

My name is Early Clowers. I am 44 years old. I was the president of the United Steelworkers Local Union 2708, and a 20-year employee of Armco Steel, Houston Works. In 1981, my plant—at my plant, I represented 3,100 members. Two years later, there were none. The principal reason for the plant closure is imported steel. This is not only true for my plant, but all over the country.

By 1983, nearly 210,000 steelworkers, or 46 percent, lost their jobs. Since 1981, in my State district alone, which covers Texas, Arkansas, and Oklahoma, 51 plants have closed. The membership has dropped from 46,000 to less than 20,000 today.

These are hard-working people, some of whom have never been laid off before, never have drawn unemployment benefits in their lives. For instance, myself. I am a second-generation steelworker. My dad retired from Armco Steel after 27 years of service. I had 20 years of service, and have two brothers with 17 and 19 years of service when Armco closed its plant. Some of these workers had as much as 42 years of service.

I hope you do not just look at the figures and statistics. T.E.C. has the unemployment rate in Houston at around 7.2 to 7.3 percent range. However, I would like to point out the fact that there are people who have been out of work so long that they have exhausted all their benefits and have been dropped from the roll or not even been counted at all. Believe it or not, we have members who, after 2 years, have not found permanent jobs.

Contrary to the popularly held myth, the American steelworkers are the most productive in the world. In 1983, it took 6.59 total man-hours to produce a ton of steel in the United States. In West Germany, it took 10.76 man-hours; in the United Kingdom, it took 10.75 man-hours; and, even in Japan, it took 7.2 man-hours to produce a ton of steel. Or to put it another way, the American steelworkers produce 17 percent more steel per man-hour than his Japanese counterpart.

We at Houston Works had the most modern, wide flange mill in the United States, second to none. But the foreign countries could dump their products on our docks for $50 per ton cheaper than we could produce it at our plant. In August 1984, I was part of the steelworkers delegation in Dallas, trying to get President Reagan to help us. I believe in fair trade.

Mr. Chairman, we are not competing with foreign steelworkers. We are competing with foreign countries. And that just is not fair trade.

To make a long story short, we never got to talk to the President, but we did get to talk to Senator Laxalt. At any rate, we never did get any relief from the foreign imports.

I want to tell you the human side of a plant closure—how hard it was to see my plant go down and turn into a rust bucket, and what it has done to the people that worked there. Perhaps the most vivid examples of the impact of a plant shutdown on January 27, 1984, are provided by the inexplicable deaths of numerous—deaths and numerous divorces among our membership, attributed to stress associated with the plant closing. All I know is that young men who appeared to be in good health suddenly dropped dead. Perhaps the reason was that there were no jobs for 18-year steel mill veterans, even though with highly specialized skills.

I liken the plant closing to the death of an ailing mother. You might expect her to die, but when it happens, you are shocked and hurt. We have several suicides, not only from my membership, but from the salaried people as well. So it affects everyone like a stone getting tossed into a calm lake. The ripple effect has been devastating to my membership.

I want you to realize that the members who have an average of 18 years of service and those who average around 45 years of age, should they be fortunate enough to go to work in another plant, will never be able to qualify for regular full retirement. They will most likely become the wards of a State or the community. As the Social Security Administration law is now administered, they will never be able to depend on Social Security benefits to supplement their retirement.

Our people lost homes, cars, everything they had in the world. Some are going back with their parents. Some are going hungry. President Reagan probably does not think so, but it is true for many in Houston, TX.

I remained at the union hall helping to close down for a whole year after the layoff. I would like to remind you that the examples I have stated here are the things that I have seen and heard over that year. Some of our members just come by to say, "Hi." They all would get around to asking, when will the plant reopen? They still cannot handle it. Others who are financially all right would have a look in their eyes of hopelessness, a hollow and washed-out look. They would say, "Early, I just don't know what to do." It seems like they had lost their purpose of life. Some of these people have worked all their lives, to see it all go down the drain through no fault of their own, as they cannot control steel imports.

Our Government is the only one which does not have an industrial policy. It is just not right and something should be done about it. You will continue to see this devastating waste of people and their lives. I do not believe you can measure all the suffering that has been caused by these plant closings—the Mom and Pop stores;

the loss of taxes; the services that had to be cut back from the city, police and fire services. But probably worse are children being affected. When dad loses his job, things tend to go from bad to worse. Mom and pop start fighting about the bills that they don't have the money to pay. When mom and pop have to choose between the electric bill being paid and the doctor bill, the electricity bill is the one that will be paid. Children are going to go without medical services that they need, and you will see this follow for the same children for the remainder of their lives. There will be no money for their continued education beyond public schools. These are some of the problems that will be facing us in the future. So you see, when a plant goes down of this size, it will affect people's lives for years to come.

I also understand that the Senate has a bill to reduce 50 to 55 percent of all title 3, JTPA money in 1986. That would be a grave injustice because what little help there is would be cut. Please see that this does not happen.

Mr. Chairman, I am honored to come before this committee to express some of the problems that I have personally seen happening to my membership in the 2 years since my plant closed down.

[The prepared statement of Mr. Clowers follows:]

PREPARED STATEMENT OF EARLY CLOWERS

Mr. Chairman and Members of the Committee, my name is Early Clowers. I am 44 years old. I was President of United Steelworkers of America, Local Union 2708 and a 20-year employee of Armco Steel, Houston Works. In 1981 at my plant, I represented 3,100 members. Two years later, there were none. The principal reason for the plant closure is imported steel. This is true not only for my plant but all over the country.

By 1983, nearly 210,000 Steelworkers (or 46%) lost their jobs. Since 1981, in my three state district alone, which includes Texas, Arkansas, and Oklahoma, 51 plants have closed. Membership has dropped from 46,000 to less than 20,000.

These are hard working people. Some had never been laid off or had never drawn unemployment benefits in their lives. For instance, I myself am a second generation steelworker. My dad retired from Armco after 27 years of service. I had 20 years, and I have two brothers who had 17 and 19 years of service at Armco when the plant closed. Some workers had as much as 42 years of service.

I hope you don't just look at figures and statistics. T.E.C. has the unemployment rate in Houston at around 7.2% to 7.3% range, however, I would like to point out the fact that there are people who have been out of work so long that they have exhausted all of their benefits and have been dropped from the roll (or not counted at all). Believe it or not, we have members who still, after two years, have not found permanent jobs.

Contrary to the popularly held myths, the American steelworkers are the most productive in the world (World Steel Dynamics).[1] In 1983, it took 6.59 total man-hours to produce a ton of steel here in the United States. In West Germany, it took 10.76 man-hours; in the United Kingdom, 10.75 man-hours; and, even in Japan it took 7.72 man-hours. To put it another way, the United States steelworker produces 17% more steel per hour than his Japanese counterpart.

We at Armco Steel Houston Works had the most modern Wide Flange Mill in the United States—second to none, but the foreign countries could dump their product on our docks for $50.00 to $80.00 per ton cheaper than we could produce it at our plant. In August of 1984, I was a part of the Steelworkers delegation in Dallas trying to get President Reagan to help us. (I believe in Fair Trade). Mr. Chairman, we are not competing with foreign Steelworkers, we are competing with foreign governments and that's not fair trade. To make a long story short, we never got to talk to the President, but we did get to talk to Senator Laxalt, but at any rate we never did get any relief from foreign imports.

---

[1] World Steel Dynamics, July 1983.

I want to tell you of the human side of a plant closing—how hard it was to see my plant go down and turn into a "rust bucket" and what it has done to the people that worked there. Perhaps, the most vivid examples of the impact of the plant shutdown on January 27, 1984, are provided by the inexplicable deaths and numerous divorces among our members attributed to stress associated with the closing of the plant. All I know is that young men who appeared to be in good health suddenly dropped dead. Perhaps the reason was that there were no jobs for 18-year steel mill veterans, even those with highly specialized skills. I likened the closing to the death of an ailing mother. You might expect her to die, but when it happens, you are shocked—hurt. We have had several suicides, not only from my membership, but from the salary people as well. So it affects everyone like a stone getting tossed in a calm lake. The ripple effect has been devastating to my members. I want you to realize that the members who had an average of eighteen years of service and who are on the average forty-five years of age, should they be fortunate enough to go to work at another company, they will never be able to qualify for a regular full retirement. They will most likely become wards of the State or the community. As the Social Security law is administered now, they will never be able to depend on Social Security benefits to supplement their retirement.

Our people lost homes, cars—everything they had in the world. Some moved back with their parents. Some are going hungry. President Reagan probably does not think so, but it is true for many in Houston, Texas.

I remained at our Union Hall helping close down for a whole year after the layoff. I would like to remind you that the examples I am stating here are things that I have seen and heard over that year. Some of the members would come by just to say "Hi" and they would all get around to saying, "When will the plant re-open?" They still can't handle it yet. Others who were financially all right would have a look in their eyes—the hopeless, hollow, washed-out look. They would say, "Early, I just don't know what to do." It seems they lost their purpose in life—Hey, some of these people have worked all of their lives to see it all go down the drain for no fault of their own—they can't control steel imports.

Our Government is the only one which still does not have an industrial policy. It is just not right and something should be done about it. You will continue to see this devastating waste of people and their lives. I don't believe you can measure all of the suffering that has been caused by these plant closings—Mom and Pop stores, the loss of taxes, services that had to be cut back from the City (police and fire). But, probably, the worst are the children being affected. When Dad loses his job, things tend to go from bad to worse. Mom and Dan start fighting and arguing about the bills that they don't have money to pay. When Mom and Dad have to choose between the electricity bill and a doctor bill, the electricity bill is the one that will be paid. Children are having to do without medical services that they need and you will see this follow those same children the remainder of their lives. There will be no money for continuing their education beyond public school. These are some of the problems that will be facing us in the near future. So you see, when a plant of that size goes down, it affects the lives of people for years to come.

I also understand that the Senate has a bill to reduce 50 to 55% of all Title 3, JTPA money in 1986. That would be a grave injustice for what little help there is to be cut. Please help to see that does not happen.

Mr. Chairman, I am honored to come before this Committee to express some of the problems that I have personally seen happening to my membership in the two years since my plant closed down.

Mr. Wright. Mr. Clowers, thank you. This is a very moving statement and it draws upon a well of human experience and, thanks to the human side of this equation, what happens to people.

Let me just advise you that with respect to the reduction in the Job Training Partnership Act, which had been proposed in the Senate budget, those of us on the House side in the budget conference—Mr. Frost, Mr. Lowry, and I, being on the conference—insisted that this program not be reduced. And we prevailed with respect to that item in the budget. So that is one thing mentioned that has been taken care of at least so far. They may come up and try to do it again.

But the Job Training Partnership Act, of course, is one of the few things available to help those who are displaced in mid-career to find the training necessary to give them a marketable skill that will let them get another job. So that's one of the aspects of the program that we are conscious of.

I really thank you. You have enlightened us and opened our eyes, I think, to some of the truly human aspects of this problem. Other members may have questions.

Mr. BOEHLERT. I just want to thank you for the very eloquent testimony because it is important to factor in the human equation. So often, so many people in Washington just look at numbers on pieces of paper and do not think in very real human terms. So I thank you for that.

But I do want to ask you one question about page 3 of your testimony where you say, "As the Social Security law is administered now, they will never be able to depend on Social Security benefits to supplement their retirement." You have no confidence in the future of the Social Security Program?

Mr. CLOWERS. No, sir, I really don't. This is my personal belief, and I guess I am one of the ones who Jim Wright was talking about that sometimes after the disillusionment of a plant closure really wonder if our Government is really listening to the people out here, to the fact that we continue to see imported steel dumped on our shores, sometimes illegally. We are wondering sometimes, I suspect, if we really do have the ear of our Government.

Mr. BOEHLERT. Mr. Clowers, thank you. If we leave you with nothing else, let me try to bolster your confidence in the future of Social Security. Because I think that Congress, in a bipartisan manner in 1983, finally came to grips with the reality of the crisis in financing that system. And we have made some tough decisions, but those tough decisions are going to guarantee that your benefits are going to be there when you need them.

We are contemporaries, I am a couple of years your senior, but they are going to be there.

Mr. CLOWERS. Thank you, sir.

Mr. WRIGHT. You did not mean to imply, I gather, that people who are thrown out of work after 18 years of service, and they have been paying into the Social Security Program——

Mr. CLOWERS. No, sir.

Mr. WRIGHT [continuing]. But they have not?

Mr. CLOWERS. That is not what I was referring to. I was not referring that they were not paying into the system. I was thinking when they got to a retirement age, the Social Security system, as we know it now, probably will not be there.

Mr. WRIGHT. Oh, well, I——

Mr. CLOWERS. That is the point I was trying to make. I may not have made it very well.

Mr. WRIGHT. If that happens to those workers, it will happen to 36 million other Americans.

Mr. CLOWERS. I understand that.

Mr. WRIGHT. We are not going to let that happen.

Mr. CLOWERS. I hope not.

Mr. WRIGHT. Well, you count on that.

Mr. CLOWERS. Thank you, sir.

Mr. WRIGHT. Our next witness is a mayor of a city which has been impacted very severely by recent plant closures, Hon. William

Goodman of Miami, OK. And in Oklahoma, up there near the Kansas line near Tulsa, we do not say "Miami," we say "Miami." Up in Missouri, we say "Missouri."

So, Mr. Mayor, we thank you for coming. The mayor of Miami, OK, as I understand it, is going to tell us of some of the social aspects that occur on a city of medium size, when a which plant has been there, what, 40 years closes down. Mr. Mayor, we look forward to your testimony.

STATEMENT OF HON. WILLIAM E. GOODMAN, MAYOR OF MIAMI, OK

Mr. Goodman. Thank you, Chairman Wright and panel.

I am privileged to present this statement.

On August 23, 1985, B.F. Goodrich announced that its Miami tire plant would be permanently closed at the end of February 1986. The Miami B.F. Goodrich's production facility has 1.6 million square feet under roof which sits on 457 acres. The plant was built in 1945, and there have been many major expansions, including a major expansion as recently as 1982. During the last 5 years, $28 million of capital has been invested in the plant.

The Miami plant has a rated production capacity of 12,627 tires per day, and produces radial and nonradial passenger car tires, large bias and radial truck tires, and B.F.'s entire line of off-road tires and agricultural tires.

In 1984, the Miami plant produced 188 million pounds of product across all commodities in a facility that has a capacity of just over 200 million pounds.

I understand that over the past 15 years, the tire business has had more ups and downs than real progress. There are two major segments of the tire business, original equipment and replacement. The first, original equipment, has been tied to the fortunes of the new car sales, which has fluctuated as much as 30 percent between the peaks and lows. The second, the replacement segment, has been tied to the development of radials which has reduced the replacement frequency of older type tires by almost one-third.

I also understand that imports have risen from 9 percent of the U.S. market in 1978 to 26 percent currently.

Without question, however, the Miami plant particularly has been impacted by two additional factors: longstanding labor union contracts which contain work rules detrimental to efficiency and productivity, and the plight of the agricultural market.

The B.F. Goodrich corporate decision to divest $500 million in assets, reducing the company's tire assets by 25 percent, may be viewed from Akron and Washington as simply the latest manifestation of the company's choice of options in attempts to cope with the industry's problems. But as mayor of Miami, OK, however, I can tell you that our community views the closure from a devastated vantage point.

Miami, OK is small town American. It is traditional, rural America and not a suburb, which has developed since World War II due to the spinoff benefits of being adjacent to a large metropolitan area. It is a community which is losing over 60 percent of its industrial base. There is no nearby Houston or Dallas, or in the case of a plant closure at Oaks, PA, a Philadelphia to absorb the workers who are losing their jobs.

The announced closing represents the loss of the city's major employer and its largest corporate firm.

The B.F. Goodrich firm employs more than four times as many people as the next largest employer in the area. B.F. Goodrich employees represent about 5 percent of the total county population and better than 10 percent of the city population.

The closing will result in the dislocation of 1,900 B.F. Goodrich employees and $65 million of our total industrial payroll of $90 million. Forecasts indicate that approximately 1,200 other jobs in service and support roles will be lost, which could represent a total of 3,100 lost jobs and $81 million in payroll losses to the local economy.

Projections indicate a downturn in the local economy of at least 20 percent and the unemployment in the area to reach at least 20 percent. I think those are both conservative figures at this point.

The sudden and severe impact, economic impact of the plant closing creates a complete and total change in the community's economic base, endangering the community's economic stability. In addition, the social cost is equally significant. This major closure will result in a drastic reduction of the local tax revenue, affecting public services such as police and fire protection, school and health programs. Further effects can be anticipated. Housing values will decline. Other small businesses may be forced to close. New businesses will be persuaded to invest elsewhere. Industrial development in the future will become even more difficult as private and public services decline.

The loss of 3,100 jobs represents about 12,000 persons in a county of 30,000 persons losing their means of subsistence. And I refer to a county which has as its second largest economic activity a deeply troubled and uncertain agricultural industry.

The city and community are mobilizing and rallying public support, private resources in a common cause and providing leadership and direction for our survival. The community must attract new industry. We must assist present industry and businesses to expand. We must somehow maintain a healthy climate for the remaining employers. Community leaders from all segments of the community are joining in this commitment, but we need help.

Last week, $2 million in Federal assistance was provided for relocation and retraining of the Miami plant employees. While the intended use of these funds is proper, there are no jobs of any kind in the area for which these employees can be trained. Again, we see a Federal program which puts the cart before the horse. If one-half of those funds could be used by the community for industrial development, jobs would be created for which the employees could be trained.

A great sense of urgency exists within the community as we face this economic crisis.

As the community faces economic crisis, so does the city of Miami. The city's economic performance has been reflective of continued recession which Oklahoma towns and cities are experiencing. In fiscal year 1985, the city's growth in total revenues was only 2.6 percent. The city faced a significant shortfall in budgeting for the current fiscal year, but with the B.F. Goodrich closure, that shortfall is going to be four times greater than expected. Local sales taxes have fallen sharply as a result of the announcement alone. The city's projecting a shortfall for our next fiscal year, beginning July 1, because of the plant closure, of approximately $1 million, which is 25 percent of the total general budget.

The city of Miami, as most Oklahoma cities and towns, is fiscally conservative in its approach to government expenditures. The city budget is in the lower 50 percentile of all Oklahoma cities of comparable size. Over half the city's budget is represented by costs of fire protection, law enforcement, and street maintenance. It is apparent that a 25-percent downturn in revenues available for appropriation will not only have drastic effects upon nonessential services and programs provided by the city, but also on essential services which protect the safety and welfare of our citizens.

Gentlemen, for the city of Miami to offset the expected shortfall next year, it will require the elimination of one-half of the police department salaries, one-half of the fire department salaries, one-half of the street department salaries, one-half of our parks and recreation department salaries, and the elimination of our entire library staff salaries.

Gentlemen, if Washington really wants to understand what is happening in America, it should use Miami, OK as a microcosm for studying the ills of American industry and the devastation brought on by those ills, and I guarantee that you will get a clear and distinct picture. If you really want to see without abstractions and without distortions how a small American city is devastated by our industrial failures, I respectfully urge you to look at Miami, OK. Thank you.

[The prepared statement of Mr. Goodman follows:]

PREPARED STATEMENT OF HON. WILLIAM E. GOODMAN

On August 23, 1985, B.F. Goodrich announced that its Miami tire plant will be premanently closed at the end of February 1986.

The Miami B.F. Goodrich plant's production facility has 1.6 million square feet under roof which sits on 457 acres. The plant was built in 1945 and there have been many major expansions, including a major expansion as recently as 1982. During the last five years, $28 million of capital has been invested in the plant.

The Miami plant has a rated production capacity of 12,627 tires per day and produces radial and nonradial passenger car tires, large bias and radial truck tires, and B.F.'s entire line of off-road tires and agricultural tires.

In 1984, the Miami plant produced about 188 million pounds of product across all commodities in a facility which has a capacity of just over 200 million pounds.

I understand that over the past 15 years the tire business has had more ups and downs than real progress. There are two major segments of the tire business, original equipment and replacement. The first, original equipment, has been tied to the fortunes of new car sales which have fluctuated as much as 30 percent between peaks and lows. The second, the replacement segment, has been tied to the development of radials which has reduced the replacement frequency of older type tires by almost one-third.

I also understand that tire imports have risen from 9 percent of the U.S. market in 1978 to 26 percent currently.

Without question, however, the Miami plant particularly has been impacted by two additional factors, longstanding labor union contracts which contain work rules detrimental to efficiency and productivity and the plight of the agricultural market.

The B.F. Goodrich corporate decision to divest $500 million in assets, reducing the company's tire assets by 25 percent, may be viewed from Akron and Washington as simply the lastest manifestation of a company's choice of options in attempts to cope with the industry's problems. As mayor of Miami, Oklahoma, however, I can tell you that our community views the closure from a devastated vantage point.

Miami, Oklahoma is small town America. It is traditional, rural America and not a suburb which has developed since World War II due to the spinoff benefits of being adjacent to a large metropolian area. It is a community which is losing over 60 percent of its industrial base. There is no nearby Houston, Dallas, or, in the case of the plant closure at Oaks, Pennsylvania, a Philadelphia to absorb the workers who are losing their jobs.

The announced closing represents the loss of the city's major employer and its largest corporate firm.

The B.F. Goodrich plant employs more than four times as many people as the next largest employer in the area. BFG employees represent about 5 percent of the total county population and better than 10 percent of the City population.

The closing will result in the dislocation of 1,900 B.F. Goodrich employees and $65 million of our total inudstrial payroll of $90 million. Forecasts indicate that approximately 1,200 other jobs in service and support roles will also be lost which could represent a total of 3,100 lost jobs and $81 million in payroll losses to the local economy.

Projections indicate a downturn in the local economy of at least 20 percent and unemployment in the area to reach at least 20 percent.

The sudden and severe economic impact of the plant closing creates a complete and total change in the community's economic base, endangering the community's economic stability. In addition, the social cost is equally significant. This major closure will result in a drastic reduction in the local tax revenue, effecting public services such as police and fire protection, schools and health programs. Further effects can be anticipated: housing values will decline; other small businesses may be forced to close; new businesses will be persuaded to invest elsewhere; industrial development in the future becomes even more difficult as private and public services decline.

The loss of 3,100 jobs represents approximately 12,000 persons in a county of 30,000 losing their means of subsistance, and I refer to a county which has, as its second largest economic activity, a deeply troubled and uncertain agricultural industry.

The city and community are mobilizing and rallying public and private resources in a common cause and providing leadership and direction for our survival. The community must attract new industry. We must assist present industry and businesses to expand. We must, somehow, maintain a healthy climate for the remaining employers. Community leaders, from all segments of the community, are joined in this commitment, but we need help.

Last week, $2 million in Federal assistance was provided for the relocation and retraining of the Miami plant employees. While, the intended use of these funds is proper, there are no jobs, of any kind, in the area for which the employees can be trained. Again, we see a Federal program which puts the cart before the horse. If one-half of those funds could be used by the community for industrial development, jobs would be created for which the employees could be trained.

A great sense of urgency exists within the community as we face this economic crisis.

As the community faces an economic crisis, so too does the city of Miami. The city's economic performance has been reflective of the continued recession which Oklahoma towns and cities are experiencing. In fiscal year 1985; the city' growth in total revenues was only 2.6 percent. The city faced a significant shortfall in budgeting the current fiscal year, but with the B.F. Goodrich closure that shortfall is going to be four times greater than expected. Local sales taxes have fallen sharply as a result of the announcement alone. The city's projecting a shortfall for our next fiscal year beginning next July 1, because of the plant closure, of approximately $1 million, which is 25 percent of the total general fund budget.

The city of Miami, as most Oklahoma cities and towns, is fiscally conservative in its approach to government expenditures. The city's budget is in the lower 50 percentile of all Oklahoma cities of a comparable size. Over half of the city's budget is represented by costs for fire protection, law enforcement and street maintenance. It is apparent that a 25 percent downturn in revenues available for appropriation will not only have drastic effects upon nonessential services and programs provided by the city, but also on essential services which protect the safety and welfare of our citizens. Gentlemen, for the city of Miami to offset the expected shortfall next year, it will require the elimination of one-half of our police department salaries, one-half of our fire department salaries, one-half of our streets department salaries, one-half of our parks and recreation department salaries and elimination of our entire library staff salaries.

Gentlemen, if Washington really wants to understand what's happening in America, it should use Miami, Oklahoma as a microcosm for studying the ills of American industry and the devastation brought on by those ills and I guarantee you will get a clear and distinct picture. If you want to really see, without abstractions and without distortions, how a small American city is devastated by our industrial failures, I respectfully urge you to look at Miami, Oklahoma.

Mr. Wright. Mayor, that is a stunning thing to contemplate. For you it is not contemplation, it is reality.

I was once mayor of a community not too different in size from Miami. I think when I was mayor of Weatherford, TX, Parker County had about 30,000 people, as you report that your county had. I shudder to think how we would have reacted had we lost 1,800, 1,900 jobs overnight, or let alone 3,100, as you report would be the residual effect, probably would be, and all the other businesses that exist to service and provide help and goods for those people who won't be able to pay for those goods and services.

To extend it even further, I guess a loss of that kind in a town the size of Fort Worth would require the loss of 230,000 jobs. I wonder how a thriving or bustling growing community could go through that kind of loss suddenly?

I just have one question regarding your testimony as it applies to suggestions as to what we might do to be helpful. You properly pointed out that the money available for jobs and training is good, but there are not any jobs for which these people could be trained, certainly not in Miami or anywhere nearby. And you suggested that if one-half of the funds so provided could be used somehow for development of an industry or for industrial development of some sort, you think it would be very useful, very beneficial.

Mr. Goodman. We have for the last couple of years been aware that we need to broaden our economic base in the city, and have been working very diligently to put together an economic program or development program that would attract industry. Of course, it is always the same one important issue affecting new industries coming to an area. It seems like money is always the problem.

We, for example, did not have the revenues nor the money to develop industrial parks that would attract. And in this day and age with the competition the way it is for industries, if you are not prepared, they are not going to wait on you. They are going to go somewhere to put their money to work quickly.

We had contact this past week, inquiries by two or three different companies, and probably two of those would have represented 300 to 400 jobs apiece, which might have—would have, as they indicated, had a genuine interest—but we could not make available to them the things they needed. And so I'm getting back to the money again. If we had a million dollars, if we had $2 million, we could replace some of the jobs that are lost. Maybe not with the caliber or quality of jobs that we lost in these high-paying manufacturing jobs that B.F. Goodrich represents, but at least the bottom would not be so low; it would be cushioned considerably.

Mr. Wright. I think I understand that. We have another member of this panel who has served as mayor of a city. Mr. Lundine was mayor of Jamestown, NY. I am sure he can identify with the plight of a city mayor. When I was mayor, in one of those years, I also doubled as president of the chamber of commerce, and we tried to do everything we could imagine to attract industry.

There has been only one program of Government in the last 15 or 20 years aimed directly at assisting small cities to develop an industrial base. That is the Economic Development Administration, loans to business to locate in severely smitten areas of high unemployment, particularly in small towns; and grants to communities in assisting them develop those industrial parks.

I know that this agency in past years has been active in Oklahoma and in the general northeastern part of Oklahoma, which you represent. Has any inquiry been made of the Southwestern Division Office in Austin?

Mr. Goodman. Yes, we have. And EDA has been working with us.

One of the requirements, however, has been that—a delay for us. Some of the requirements for those grants are that you must have a viable prospect, all things in place, including financing that might be required, then they will make a grant that would allow you to have some assistance in developing an industrial site.

I recognize the reason for those things. And we have had not the good fortune of having the prospect that has had the money and everything worked out as yet.

Mr. Wright. I see. Mr. Gephardt.

Mr. Gephardt. I do not have questions. But I really do appreciate your testimony, and I think when you get to the last page and talk about the real life outcomes in your city as a result of the impact of losing this industry, it really does come across. And it is a story and factual situation that we can well take back to Washington to help us try to fashion a better trade policy. I really appreciate your taking your time to come here today.

Mr. Wright. Mr. Chapman.

Mr. Chapman. I just want to say a sincere thank you as well.

My congressional district, a large part of it, lived through what your community is facing, layoff of 4,000 steelworkers. It will be a very difficult time. I'm not telling you anything you do not know.

I, too, agree and I hope that the story you tell, like the story that was told in northeast Texas, is one that will be retold in Washington and that the institution in which I now serve will be able to respond and do those kinds of things and develop a plan, as you recommend here, particularly something, perhaps, to target assistance to those communities, as the one you represent, which can perhaps not put a Band-Aid on the problems, but provide the resources and money to do those things in the area of economic development. This would allow you to maximize your own resources and minimize the impact of this kind of plant closing.

I commend you. And I can only say that experience in east Texas was such that the people were resilient. If you work hard, there is light at the end of the tunnel. I wish you Godspeed in that effort.

Mr. Goodman. Thank you

Mr. Wright. Former Mayor Mr. Lundine.

Mr. Lundine. Well, actually, you asked the only question I was going to ask. But if it were up to me, Mayor, you could have half of that money for industrial development.

Mr. Goodman. Thank you.

Mr. LUNDINE. And I am serious. I have been there, as Mr. Wright said; not only been a mayor, but a mayor where there was devastating loss of employment.

I do not want to be redundant to my colleague, Mr. Chapman, but it can be turned around. We did it in Jamestown, NY, with a similar kind of situation but perhaps not quite the quantity—the dimension of the problem you have. But our unemployment rate went from more than 12 percent to less than 4 percent in 3 years after a devastating impact like that. But I must admit we had probably more industrial development capability than there is now. We are fighting for them and we will continue to, and we will try to crack them in a way that it makes sense in a community like yours.

Mr. WRIGHT. Mr. Alexander.

Mr. ALEXANDER. Thank you, Mr. Chairman.

I cannot improve upon any of the questions that have been asked. I, too, appreciate you being here. And as a member of the Appropriations Committee for the Department of Commerce, having jurisdiction over the Economic Development Administration, I have participated in saving that program twice. It is alive; it is not as well as it needs to be, but we invite you to Washington. And in any way we can be of service to you, we wish to accommodate your interest to whatever capacity we are able. Thank you very much.

Mr. WRIGHT. Mayor Goodman, thank you. Thank you for your testimony.

Lawrence J. Rhoades; president of the Extrude Hone Corp. in Irwin, PA. Mr. Rhoades, would you come forward and introduce your associate to the panel. We are anxious to hear what you have to report to us.

STATEMENT OF LAWRENCE J. RHOADES, PRESIDENT, EXTRUDE HONE CORP., ACCOMPANIED BY JAMES MACK, PUBLIC AFFAIRS DIRECTOR, NATIONAL MACHINE TOOL BUILDERS ASSOCIATION

Mr. RHOADES. Good morning. I am Larry Rhoades, president of Extrude Hone Corp. I chair the International Trade Committee of the National Machine Tool Builders Association. The NMTBA is a trade association of the companies that build the equipment used by manufacturers to cut and shape metal, for everything from washing machines and automobiles to airplanes and missiles. With me is James Mack, NMTBA public affairs director.

Our purpose today is to give you a brief update on the machine tool industry's competitive outlook. While there have been some encouraging signs, most machine tool builders continue to remain in a state of severe financial strain due to the modest recovery in shipments. A major factor complicating the prospects for further recovery is the escalating import penetration into the American machine tool industry. Imports, measured by value, account for more than 40 percent of 1985 domestic machine tool consumption and have shown every sign of maintaining or increasing this market share.

It is because of the threat of import dominance into the machine tool market that early in 1983 the NMTBA filed a petition for temporary import relief with the Secretary of Commerce under section 232 of the Trade Act of 1962, the national security clause. The Commerce Department submitted a reportedly favorable recommendation on action on the petition to the President on February 28, 1984. Thus, for the past 19 months, the fate of the industry's future and of the national security of the United States has rested squarely in the Oval Office. Despite overwhelming bipartisan support from Congress, the petition remains hung up in the National Security Council, and the President still has not acted.

NMTBA and its members are in the forefront of a vigorous export promotion program because we know that exports are critical to keeping and maintaining a competitive edge. However, these efforts have great difficulty overcoming the effects of the overvalued dollar as well as the lack of competitive export financing, uneven administration of presumably multilateral export controls under Cocom, and the effects of foreign government targeting of their machine tool exports. Repeal of the 10 percent investment tax credit and depletion of ACRS, as proposed in the administration's tax reform package, will, by increasing the cost of capital for our members and their customers, make us even less competitive.

Our written statement outlines a number of actions by our Government which, if adopted, could go a long way toward restoring the competitiveness of the U.S. machine tool industry at home and abroad. Let me outline just a few, though.

First, the administration must act immediately and favorably on our national security trade petition. We urge you to adopt legislation by Congresswoman Lynn Martin mandating the President to do so.

Second, we urge you to adopt international competitiveness as a principal goal of tax reform. We urge you to retain in the tax code a meaningful capital cost recovery system which both encourages and provides the wherewithal for timely investments and new productive equipment and in the research and development; and to resist destroying the effectiveness of these incentives through measures like the minimum tax, as proposed by the Ways and Means staff.

Third, we urge you to adopt legislation which will specifically make the unfair targeting of U.S. industries by foreign governments an actionable offense under our trade laws.

Finally, the House Armed Services Committee recently adopted report language urging the Defense Department to reevaluate its policy of purchasing foreign machine tools for Government-owned defense facilities. We urge you to follow up on this report language, and if the administration is unwilling to stop purchasing foreign machine tools for Government-owned facilities, we urge you to mandate them to do so when the 1986 defense authorization is before you next year.

Mr. Chairman, members of this committee, I urge you to encourage development and investment in American productivity and in American manufacturing technology, in machine tools built in America. Because, as economist Alan Meltzer points out in the lead article of the current issue of Fortune magazine, that is our best, indeed our only opportunity to improve our international competitiveness and not sacrifice our standard of living.

We are a small industry, $2 to $3 billion annual sales per year. Yet everything in this room, except you and me, was either made by a machine tool or made by a machine made by a machine tool. If our industry is allowed to be overwhelmed by imports, the innovations and new manufacturing process technology that it provides America's manufacturing industries will be lost forever. Foreign firms will then have the upper hand in the development in new technology and will be the leaders in the drive for more efficient, lower cost production of manufactured goods.

The loss of America's machine tool building capability could well signal the beginning of the decline for all of America's metal working manufacturing industries, including our defense base.

We appreciate this opportunity to tell you our story and offer our suggestions.

Mr. **Wright**. Well, thank you. That was concise, to the point, and you have succinctly summarized your written message and covered a lot of ground, and have made some specific recommendations which I know we will want to carry back and share with our colleagues and evaluate.

You suggest—and I think it is interesting, particularly because of Mr. Gephardt's presence here, that the bill introduced by him and Senator Bentsen, providing a standby 25 percent surcharge to those countries which persistently refuse to admit our products on the same basis that we have been admitting theirs, would send these countries a message that would be useful. Do you care to elaborate on that?

Mr. **Rhoades**. The problem with the—at the moment, either as part of a comprehensive tax reform or separate legislation, we have to look at ways to encourage our investment in R&D and in equipment.

Mr. **Wright**. With respect to tax reform, you have reference primarily in that regard to the investment tax credit, I guess, don't you?

Mr. **Rhoades**. Right. Our trading partners must be put on notice that their conduct, the way they are doing it, will no longer be tolerated. We are specifically the victims of a specific targeting effort. And although we are the target, the real prey is manufacturing industries throughout the United States as a whole. That is a wise policy on our foreign competitors' part because the net result of that is that American manufacturers are put at a disadvantage on having access to the latest manufacturing technology. And that hurts the entire manufacturing base within the United States on manufactured goods.

Mr. **Wright**. You make in your text proposal a suggestion that I think falls upon me, since Congressman Boehlert, our Republican colleague, is not in the room at the moment, to come to the defense of the administration. I am happy to do so.

In one instance here, you undoubtedly wrote your testimony at a time prior to the announcement by the administration that it does intend to do something more in line with your suggestion. So we urge you to resist efforts by the administration to water down or even terminate the bank's ability to provide competitive financing for U.S. exports, the Export-Import Bank. And that was, indeed, the position of the administration early this year, to do away with loans of the Export-Import Bank.

I am heartened by what I see as an awakening on the part of the President and the administration to the need for us to make it possible for American exporters to have the same advantage and kind of interest that their competitors enjoy when their governments in other countries give them the advantage of low interest rates. If I understand correctly, the President earlier suggested that we do away with that loan program entirely. Now he is suggesting that there be created, I think, a $300 million fund for use by the Export-Import Bank to do just exactly what you are suggesting. So maybe your writing it down on this piece of paper had some subliminal effect.

Mr. MACK. The problem, Congressman—you are right, and we welcome that. I think the package that the Speaker and Mr. Gephardt and Mr. Bonker announced yesterday talks of even a larger amount.

Mr. WRIGHT. $500 million.

Mr. MACK. Yes. The problem is that the way the administration talks about paying for that is to deplete the existing Eximbank lending authority; so that it is sort of a zero-some game. Said we are going to have this $500 million or $300 million war chest, but then we are going to not make loans, or not be able to make loans for exports in other areas because we deplete the lending authority of the bank to pay for that. I guess what we are suggesting is that you ought to do both.

Mr. WRIGHT. I was not aware of that wrinkle. In other words, that is like the bank in your hometown saying, OK, we are going to take all the moneys out here for loans and we are going to loan for a given purpose; now we have no more left, and won't get anymore. Mr. Gephardt.

Mr. GEPHARDT. Just one quick question. I wanted to ask about this 232 petition that you filed. It has been 19 months, you said. Do you have any idea—have you been told why it has taken 19 months and why there is no action? Do you understand what the rationale is?

Mr. MACK. Congressman, when the Secretary's recommendations went over to the White House—and all of this is classified—we do not know specifically what the recommendations were. We have reason to believe that they were favorable.

When you build a national security import relief case, it is one that not everyone can or should be able to use. One should not be able to argue that you cannot fight a war without paper clips and, therefore, we ought to restrict the import of paper clips. But you surely cannot fight or immobilize without machine tools.

But then what gets into all of this is what assumptions do you make; what does the mobilization look like; what is going to be the availability of imports during the mobilization. And we had at one point in the process the people from the State Department telling us don't worry if we become foreign-source dependent on Japan because the Russians will be so busy blowing up troop ships that they won't bother commercial traffic; we can put a big grey cross on the side of the ship; you know, don't monkey around with this one because it's only carrying machines to make bombers and guns.

But as I understand, part of what went on was that at the same time that the machine tool case went over there, there was a big controversy between OMB and the Council of Economic Advisers on the one hand, and those folks like the Defense Department and Commerce who have responsibility for mobilization on the other, and the Interior Department, over justifying selling off the stockpile of strategic minerals to help produce the budget deficit. That was done, you may recall, back in the late 1960's and the early 1970's under the Johnson and Nixon administrations.

But in order to justify doing that, you have to construct a scenario that says "we don't need as much of —" and then you fill in the blank, whatever it is, strategic minerals, machine tools, whatever. So there has been this big fight going on about what does the civilian economy look like, in effect, trying to change the ground rules for the scenario that Commerce used in deciding the case. And then as I said, the State Department not wanting to offend any of our allies, and saying—well, the import side of the scenario has got to be changed. I think that is part of it. I think part of it is just the hope that maybe somehow we are all going to go away. The problem is we are. Manufacturing capacity in the United States has gone down. When we filed the petition, imports were about 27 percent in terms of value; they are now upwards of 45 percent in terms of value. It just goes on forever.

Unless, frankly, you fellows and your colleagues tell the administration enough is enough, and if you haven't made a decision by now on this case, we are going to make it for you, or at least we are going to tell you within some specific time period, you ought to give these people an answer, it is going to go on forever.

Mr. GEPHARDT. Well, you made a very good point. I guess I think it is unconscionable if they have not made a decision. It really destroys people's faith in the trade law we have and in the Government when that happens. It looks to me like there is chaos and disarray in the administration, in just trying to make a decision. It seems to me that Congress ought to put a deadline on that law that they cannot go beyond. That seems to me to be the way to go.

Mr. MACK. I would agree with you, particularly where you have the Secretary of Commerce and the Secretary of Defense in agreement that something ought to be done. And where you are talking about an industry or products of an industry that we have, as arguably we should have, a very difficult time exporting to potential adversaries. Why? Because they could increase the military capability of those adversaries.

As some folks in the Congress who do not have any machine tool constituents said, if they are important enough to restrict their export because they can increase the Russians' military capability, they are probably important enough to make sure we have a domestic capacity to make them here in the United States.

Mr. GEPHARDT. Thank you very much.

Mr. WRIGHT. I want to ask the indulgence of all the witnesses and members, also, in recognizing the fact that we have run past our intended time. We still have a number of witnesses who have information to supply to us.

Are there other questions of this witness? If not, thank you, sir, very much for an extremely valuable statement.

Mr. RHOADES. Thank you, Mr. Chairman.

Mr. WRIGHT. We do have a time problem in that we have plane reservations to leave, and we are rapidly running out of time. But let's go right on through and do what we can, and then grab what kind of lunch is available

Ms. Nilda Quintanilla of McAllen, TX is here to tell us about an experience that occurred in the Rio Grande Valley. She is accompanied by one of her associates, I believe, who has been involved in that same situation. We welcome you.

STATEMENT OF NILDA QUINTANILLA, TEXTILE WORKER, McALLEN, TX

Ms. QUINTANILLA. Good morning. My name is Nilda Quintanilla. I appreciate this opportunity to tell you something of the concerns about imports that those of us who work in the Rio Grande Valley have over the future.

About 4 weeks ago—I would like to take this opportunity to make a statement.

About 4 weeks ago, I went to testify in Washington for the Textile and Apparel Trade Enforcement Act of 1985 to ask their support. I am pleased to say that it has passed the House of Representatives, and we are now here asking for the continued support of this bill.

I want to tell you how we are afraid for our jobs and how we hope you will help us by stopping all our work from being taken to other countries.

I work as a material handler at the Levi plant in McAllen, TX. I have also been a supervisor, a machine operator in the 8½ years I have worked there. My plant now has a bit over 500 workers and the work is good. We are lucky, though. Many Levi plants were closed last year. And we got work from these plants. That is why we are better off this year. But we still have fears.

In the Valley, like in McAllen and Brownsville, there is a lot of unemployment, especially in Brownsville and the little towns around it. I understand that unemployment in Hidalgo County, around McAllen, runs about 22 percent in this county, and in the county next to it, Starr County, unemployment is 40 percent.

When there is a layoff, it affects a lot of people. It goes into a 25-mile radius and even further. We have people from all over, not just from McAllen, and when they are on short time, they come to work for 4 hours and it takes them 30 minutes to get there. For gas alone, it is very expensive. That is what was happening last year and into the beginning of this year.

I worked only part-time from June of last year, at vacation time, all the way to December. I would work a couple of hours a week, 20 hours, then 16 hours, then 8 hours. Then there would be a whole month when I did not work at all.

And not only myself, there are a lot of employees like that. We had four lines, then it went down to three, it went down to two, and we were afraid they were going to make it a one-line plant.

After that, we started getting some work. As a matter of fact, some of it was from Tyler. So we got work from other plants and that kept us open. And now there is a lot of work because, as I said, there are 17 to 21 plants that closed last year in Levi alone.

I have been married 21 years now and I have four children. I have two teenagers that are going to high school, and high school is a bit expensive. My husband works for a freight line company, and a lot of times in McAllen, when the peso devaluates in Mexico, business goes down. And every time business goes down, my husband gets less and less work; which means if I get laid off and he gets laid off, it puts a strain on the household budget. As it is, we are barely able to make both ends meet. We are not behind, but we are not ahead either. It is a type of situation that involves a lot of people around here, not just myself. They have problems. They get laid off.

We are beginning to be aware of all those imports and this twin plants concept that we are having in the valley. They are cutting in this country and they are sending the cloth into Mexico to be assembled. I just got word that another clothing company is cutting work in McAllen because they are thinking about moving to Mexico also. Another company which makes parts for TV's and electronic equipment used to work 5 and 6 days a week; now they are cut down to 4. There is a lot of work in McAllen which is going elsewhere.

There is a lot of fear among my friends of plant closings, especially people who have been working here at Levi's. More than half of the people who are working for Levi's once worked in the fields or went up north to find work. Those jobs have been eliminated or have been cut down, or the expense of going up north is not worth it. So they stay here. It would be hard if a plant like Levi, like our plant in McAllen, would close down. It would be hard for workers to get work. Some of them are old and they feel they are not capable of being retrained. It is pretty hard.

I am 34 and I personally feel that if I were to lose my job that I would get another, but it would take me a while because jobs are scarce.

There is not much alternative employment available in the area, and what is available has bad conditions and low wages.

Last year when I was laid off a lot, I began to think about this import thing. I do not know for a fact that our work is going abroad, but I hear a lot of conversation about it—a lot from workers that get laid off at other plants, too.

So last year, I began going into stores comparing things, checking where they were made. What was happening did not hit me until I was actually in the stores and saw where all the merchandise is coming from.

I told my plant manager at Levi's last week about how I went to get my children's clothes. I saw this beautiful blue jean by Levi—that's the first thing I usually do, check for Levi. I picked it up and found it fit my kid's size. Then I looked inside the label, which I never did until I understood this import thing, and the label said "Hecho en Mexico"—made in Mexico. So I threw it back. I didn't even fold it, I just threw it back. I went to another rack that had Lee's jeans which said, "Made in USA." So I bought Lee's.

To me, I felt bad, like I was a traitor or something. But I was not going to buy import goods anymore. It is getting to the point that I feel my job is at stake.

I know people in Mexico must work, too, as well as people in other countries. But to me, my family comes first, my husband and my children. I was born in this country. My father was born here. I am an American.

I feel that anything in excess is harmful, no matter what it is. And this import thing, I do not have anything against bringing in things from other countries, but not excessively because it will hurt people here. We need to be strong. We need to be able to work. What I feel is that we do not need a lot of government handouts; what we need is work. And the best way to do that, to have work here and not to get so many things from other parts of the world, to be able to do them here, to make our own clothes here so that people can have a sense of security, of pride in doing their own thing.

Being able to work for what you want to do, that has always been the American way. How are we going to get stronger? Not by bringing these here from other places, but by doing them here, giving people work to earn their own way. I think that is the most important thing to me.

At this time, as I said at the beginning of my testimony, we need to continue support for the Textile and Apparel Trade Enforcement Act, which we believe is the only trade legislation currently before Congress which can really help us. Here in Texas, 26,000 of the 55,000 jobs lost to imports were apparel and textile jobs. We believe our bill is the way to bring fair trade back to our industry.

I would like to thank you very much.

[The prepared statement of Ms. Quintanilla follows:]

Prepared Statement of Nilda Quintanilla

Good morning. My name is Nilda Quintanilla. I appreciate this opportunity to tell you today something of the concerns about imports those of us who work in the Rio Grande Valley area of Texas have over the future. And I ask your continued support for the Textile and Apparel Trade Enforcement Act of 1985.

I want to tell you how we are afraid for our jobs and how we hope you will help us by stopping all our work from being taken to other countries.

I work as a material handler at the Levi plant in McAllen, Texas. I have also been a supervisor and machine operator in the eight and one-half years I have worked there. My plant now has a bit more than 500 workers and the work is good. We are lucky though. Many Levi plants were closed last year and we got work from those plants. That is why we are better off this year. But we still have fears.

In the Valley, like in McAllen and Brownsville, there is a lot of unemployment, especially in Brownsville, and the little towns around it. I understand that unemployment in Hidalgo County, around McAllen, runs about twenty-two percent. In the county next to us, Starr County, unemployment is forty percent.

When there is a layoff, it affects a lot of people. It goes into a 25 mile radius, and even further. We have people from all over, not just from McAllen, and when they are on short-time, they come to work four hours and it takes them 30 mintues to get here. For gas alone, it's very expensive. That's what was happening last year and into the beginning of this year.

I worked only part time from around June last year, at vacation time, all the way to December. I'd work a couple of hours a weeks, 20 hours, 16 hours, then 8 hours. Then there would be a whole month when I didn't work at all.

And not only myself, there were lots of employees like that. We had four lines, then it went down to three, then it went down to two, and we were afraid they were going to make only a one-line plant.

After that we started getting some work—as a matter of fact some of it was from Tyler, and so we got work from other plants and that kept us open, and now there is a lot of work, because as I said, there are seventeen to twenty-one plants that closed last year.

I have been married for 20 years now and I have four children. I have two teenagers that are going to high school, and high school is a little bit expensive. My husband works for a freight line company, and a lot of times in McAllen, when the peso devaluates in Mexico, business goes down. And every time business goes down, my husband get less and less work, which means that if I get laid off and he gets laid off it puts a strain on our household budget. As it is, we are barely able to make both ends meet. We're not behind, but I'm not saying we're ahead either. It's a type of situation that involves a lot of people around here, not just myself. They have problems. They get laid off.

We are beginning to be aware of all these imports and this twin plants concept that we are having in the valley. They are cutting in this country and they are sending the cloth into Mexico to be assembled. I just got word that another clothing company is cutting on work in McAllen because they are thinking about moving to Mexico also. Another company, which makes parts for TV's and electronic equipment, used to work 5 and 6 days a week. Now they have cut down to four. There is a lot of work in McAllen which is going elsewhere.

There is a lot of fear among my friends of plant closings. Especially people who have been working here at Levi's. More than half of the people who are working for Levi once worked in the fields or went up north to find work. Those jobs have been eliminated, or have been cut down or the expense of going up there is not worth it, so they work here. It would be hard if a plant like Levi, like our plant in McAllen, would close down. It would be hard for the workers to get jobs. Some of them are old, and they feel they are not capable of being retrained. It is pretty hard. I'm 34, and I personally feel that if I were to lose my job, I'd get another job, but it would take me a little while because jobs are very scarce.

There isn't much alternative employment available in the area. And what is available has bad conditions and low wages.

Last year, when I was laid off a lot, I began to think about this import thing. I don't know for a fact that our work is going abroad, but I hear a lot of conversation about it. A lot from workers that get laid off at other plants too.

So last year I began going into stores comparing things, checking where they were made. What was happening didn't hit me, until I was actually in the stores and saw where all this merchandise was coming from.

I told my plant manager at Levi last week about how I went to get my children clothes. I saw this beautiful blue jean by Levi—that's the first thing I usually do, check for Levi—and I picked it up and found it fit my kid's size. Then I looked inside the label, which I never did until I understood this import thing, and the label said "Hecho en Mexico," Made in Mexico, so I threw it back. I didn't even fold it. I just threw it back.

I went to another rack that had Lee's jeans which said, "Made in USA." So I bought Lee's.

And to me, I felt bad. Like I was a traitor or something, but I wasn't going to buy imported goods anymore. It's getting to the point that I feel my job is at stake.

I know people in Mexico must work too, as well as people in other countries. But, to me, my family comes first. My husband and my children. I was born in this country. My father was born here. I am an American.

I feel that anything is excess in harmful, no matter what it is. And this import thing, I don't have anything against bringing things in from other countries, but not excessively, so it will hurt people here. We need to be strong. We need to be able to work. What I feel is, we don't need a lot of government handouts, what we need is work. And the best way to do that, to have work here, is not to get so many things from other parts of the world. To be able to do them here. To make our own clothes here. So that people can have a sense of security, of pride, in doing their own thing here.

Being able to work for what you want to do. That has always been the American way. How are we going to get stronger? Not by bringing things here from other places, but by doing them here. Giving people work to earn their own way. I think that's the most important thing to me.

Thank you for letting me speak to you today.

Mr. WRIGHT. Thank you, Mrs. Quintanilla. And thanks to all of those who came with you.

Do others who are here work at the Levi plant in McAllen? Are all of you employed there?

At different places. Well, Mrs. Quintanilla speaks for you. And thank you very much.

I have been advised that I was in error on my projection that the plane leaves at 2 o'clock. I understand the reservations on the plane are that it is leaving at 1:30, but there is lunch available aboard the aircraft. There will be lunch on board.

So if we could proceed, we will try as best we can to cover as much as possible that we can. We are so grateful that people have come that we do want to give you the opportunity to give us the benefit of your knowledge and experience. And let me just ask, to the extent possible, that you keep it as brief as possible in order that everyone may be heard. We have probably 40 minutes remaining.

Phil Mahan, the executive vice president of Amber Refining Co. Thank you for coming in. We know you are a critically impacted industry, and we want to hear your statement.

STATEMENT OF PHIL MAHAN, EXECUTIVE VICE PRESIDENT, AMBER REFINING, INC., ABILENE, TX

Mr. Mahan. Thank you. Amber operates a 20,000 barrel per day refinery in nearby Fort Worth, TX. We currently have about 100 employees.

Amber and several other independent refiners have formed a group called the Independent Refiners Coalition to urge Congress and the administration to take prompt action to control the alarming increase in volumes of gasoline and gasoline blendstocks that are being imported. These imports are produced by foreign governments with foreign workers and are routinely subsidized by foreign governments. Imports of gasoline and blendstocks increased about 400 percent in 1981 through 1984. During the month of June 1985, imports of gasoline and gasoline blendstocks were over 10 percent of the United States' demand.

The method that foreign refiners use to underprice the domestic refiners is to significantly discount the price of crude oil used to produce products like gasoline. When foreign governments own their own crude oil and also the refineries that use it, they can discount crude oil in order to penetrate foreign markets such as the United States.

The refining industry is therefore changing very rapidly. Our capacity is declining due to permanently shut down refineries. This decline was initially in response to reduced energy demand in the United States, which our demand peaked probably in 1979 or 1980. However, since mid-1983, further decline in the refining capacity has occurred because domestic refining capacity is being displaced by foreign imports of gasoline and gasoline blendstocks. At the same time that the United States is closing highly sophisticated efficient refineries, foreign export refineries are continuing to be built. These refineries are owned and controlled by governments of oil producing countries. They are not more efficient than the U.S. refineries that are currently being shut down.

Projects such as those would never have been undertaken without direct governmental support. The oil producing countries, in an attempt to maintain their export revenues, are using trade and marketing methods unacceptable to even the most ardent advocates of free trade. Absent a truly free world market in petroleum products or decisive action by the U.S. Congress or the Reagan administration, these oil producing countries, not market forces, will determine which refineries will survive the current trade war that is being waged. Japan and Europe, for instance, have significant trade barriers to refined products imports. However, given the United States present tariff on gasoline of 1¼ cents per gallon, which was established in 1958 when prices were 11½ cents a gallon, the United States is the only essentially unrestricted major market for gasoline in the world.

Energy policy and national security policy regarding the production of petroleum products are inextricably linked. By the end of fiscal year 1985, the U.S. taxpayers will have invested almost $17 billion in strategic petroleum reserve to bring it up to a level of about 489 million barrels. We have done that to decrease vulnerability to crude oil supply interruptions. Domestic refining capacity is already below a level which will allow full utilization of that SPR.

The purpose of the strategic petroleum reserve will be defeated if we do not have enough refining capacity to fully utilize the SPR. That is where we are today, in our opinion.

The last statement in that regard that I wanted to make is that if we decrease our dependence on imported crude oil and we substitute that for dependence on imported refined products, we have just substituted a more dangerous form of energy dependence.

In the House, Representative Anthony has introduced H.R. 2354 which would apply a 10.8 percent ad valorem tax to the first 200,000 barrels per day of imported gasoline. Volumes beyond that would be subjected to a national security tariff of 21.6 percent. Because we believe that imports must be controlled quickly and effectively, we favor this proposal.

In addition, Representative Gibbons has introduced legislation which would apply countervailing duties to imports in the event of proven natural resource subsidization. While we support this proposal, it is not a timely solution to the problem of increased gasoline imports. It would address the long-term problem of discounting, but does not offer the immediate help needed by the domestic refining industry.

Our coalition estimates that as of May 1, 1985, U.S. refining capacity was 14.5 million barrels per day. It is our opinion that this capacity is already lower than what is necessary for domestic and military needs. The DOE reports an additional 1.2 million barrels of idle capacity which they list as operable. The National Petroleum Council is currently studying idle capacities to determine whether it is indeed operable. We believe most of this capacity is past the point of being quickly returned to service. Therefore, we believe that this will aggravate the dependence that we are already creating for imported products.

In addition to the national security aspect of the shutdown of refinery operations due to increased imports is the impact on domestic employment. Petroleum refining is not a particular labor-intensive industry; however, loss of jobs due to refinery shutdowns is not confined to those directly employed by the refineries. There is a significant multiplier affect.

The Texas Department of Water Resources conducted a study in 1979 on indirect job loss due to refinery losses and calculated the multiplier effect of over 13 to 1. A Pace study in Houston in 1985 projected that, in the absence of trade barriers, imports of refined products will result in additional shutdown of over 1.4 million barrels per day of refining capacity in the United States by 1990. This shutdown can be expected to cause direct loss of 3,000 to 4,000 jobs; indirect loss of jobs, 39,000 to 59,000 jobs.

I appreciate being here. And, in conclusion, I am urging you to take decisive action and to control gasoline imports, the main problem we have in relation to trade, as I said today.

[Testimony resumes on p. 78.]

[The prepared statement of Mr. Mahan follows:]

PREPARED STATEMENT OF PHIL MAHAN

GOOD MORNING. MY NAME IS PHIL MAHAN. I AM EXECUTIVE VICE PRESIDENT OF AMBER REFINING, INC. WHICH OPERATES A 20,000 BARREL PER DAY CRUDE OIL REFINERY IN FORT WORTH, TEXAS. WE CURRENTLY HAVE APPROXIMATELY 100 EMPLOYEES.

AMBER AND SEVERAL OTHER INDEPENDENT REFINERS HAVE FORMED A GROUP CALLED THE INDEPENDENT REFINERS COALITION TO URGE CONGRESS AND THE ADMINISTRATION TO TAKE PROMPT ACTION TO CONTROL THE ALARMING INCREASE IN VOLUMES OF GASOLINE AND GASOLINE BLENDSTOCK IMPORTS. THESE IMPORTS ARE PRODUCED BY FOREIGN REFINERIES EMPLOYING FOREIGN WORKERS AND ARE ROUTINELY SUBSIDIZED BY FOREIGN GOVERNMENTS.

IMPORTS OF GASOLINE AND GASOLINE BLENDSTOCKS INCREASED APPROXIMATELY 400% FROM 1981 THROUGH 1984. DURING THE MONTH OF JUNE, 1985, IMPORTS OF GASOLINE AND GASOLINE BLENDSTOCKS WERE ABOUT 720,000 B/D OR GREATER THAN 10 PERCENT OF U.S. DEMAND.

THE METHOD THAT FOREIGN REFINERS USE TO UNDERPRICE DOMESTIC REFINERS IN THE UNITED STATES MARKET IS TO SIGNIFICANTLY DISCOUNT THE PRICE OF CRUDE OIL USED TO PRODUCE REFINED PRODUCTS LIKE GASOLINE. WHEN FOREIGN GOVERNMENTS OWN THEIR CRUDE OIL AND ALSO THE REFINERIES WHICH USE IT, THEY CAN DISCOUNT CRUDE OIL TO THEIR REFINERIES IN ORDER TO PENETRATE FOREIGN MARKETS.

THE REFINING INDUSTRY IS CHANGING VERY RAPIDLY. IN THE UNITED STATES, REFINING CAPACITY IS DECLINING DUE TO PERMANENTLY SHUT DOWN REFINERIES. THIS DECLINE WAS INITIALLY IN RESPONSE TO REDUCED ENERGY DEMAND IN THE UNITED STATES. HOWEVER, SINCE MID-1983, FURTHER DECLINE IN REFINING CAPACITY HAS OCCURRED

BECAUSE DOMESTIC REFINING CAPACITY IS BEING DISPLACED BY FOREIGN IMPORTS OF GASOLINE AND GASOLINE BLENDSTOCKS. AT THE SAME TIME THAT THE UNITED STATES IS CLOSING HIGHLY SOPHISTICATED, EFFICIENT REFINERIES; FOREIGN "EXPORT" REFINERIES ARE CONTINUING TO BE BUILT. THESE REFINERIES ARE OWNED AND CONTROLLED BY THE GOVERNMENTS OF OIL PRODUCING COUNTRIES. THEY ARE NOT MORE EFFICIENT THAN THE U.S. REFINERIES NOW BEING SHUT DOWN. THESE REFINERY PROJECTS WOULD NEVER HAVE BEEN UNDERTAKEN WITHOUT DIRECT GOVERNMENTAL ASSISTANCE. THE OIL PRODUCING COUNTRIES IN AN ATTEMPT TO MAINTAIN THEIR EXPORT REVENUES ARE USING TRADE AND MARKETING METHODS UNACCEPTABLE TO EVEN THE MOST ARDENT ADVOCATES OF "FREE TRADE." ABSENT A TRULY FREE WORLD MARKET IN PETROLEUM PRODUCTS OR DECISIVE ACTION BY THE UNITED STATES CONGRESS OR THE REAGAN ADMINISTRATION, THESE OIL PRODUCING COUNTRIES — NOT MARKET FORCES — WILL DETERMINE WHICH REFINERIES WILL SURVIVE THE CURRENT "TRADE WAR" THAT IS BEING WAGED. JAPAN AND EUROPE HAVE SIGNIFICANT TRADE BARRIERS TO REFINED PRODUCTS IMPORTS. HOWEVER, GIVEN THE U.S. PRESENT TARIFF ON GASOLINE OF 1.25¢ PER GALLON (ESTABLISHED IN 1958 WHEN THE WHOLESALE PRICE OF GASOLINE WAS 11.5¢ PER GALLON) THE U.S. IS THE ONLY ESSENTIALLY UNRESTRICTED MAJOR MARKET IN THE WORLD.

ENERGY POLICY AND NATIONAL SECURITY POLICY REGARDING THE PRODUCTION OF PETROLEUM PRODUCTS ARE INEXTRICABLY LINKED. BY THE END OF THE FISCAL YEAR 1985 THE UNITED STATES TAXPAYERS WILL HAVE INVESTED 16.7 BILLION DOLLARS IN BUILDING THE STRATEGIC PETROLEUM RESERVE TO 489 MILLION BARRELS IN ORDER TO DECREASE VULNERABILITY TO CRUDE OIL SUPPLY INTERRUPTIONS. DOMESTIC REFINING CAPACITY IS ALREADY BELOW A LEVEL WHICH WOULD ALLOW FULL UTILIZATION OF THIS STRATEGIC PETROLEUM RESERVE. WITHOUT SUFFICIENT DOMESTIC REFINING CAPACITY, THE PURPOSE OF THE STRATEGIC PETROLEUM RESERVE IS DEFEATED. TO INCREASE OUR DEPENDENCE ON IMPORTED REFINED PRODUCTS WHILE WORKING DILIGENTLY THROUGH THE STRATEGIC PETROLEUM RESERVE TO DECREASE OUR DEPENDENCE ON IMPORTED CRUDE OIL IS SIMPLY TO

SUBSTITUTE ONE FORM OF ENERGY DEPENDENCE FOR A FAR MORE DANGEROUS FORM OF ENERGY DEPENDENCE.

IN THE HOUSE, REPRESENTATIVE BERYL ANTHONY (D-ARKANSAS) HAS INTRODUCED H.R. 2354, WHICH WOULD APPLY A 10.8 PERCENT AD VALOREM TARIFF TO THE FIRST 200,000 B/D OF IMPORTED GASOLINE. VOLUMES BEYOND THAT AMOUNT WOULD BE SUBJECT TO A SECOND-TIER NATIONAL SECURITY TARIFF OF 21.6 PERCENT. BECAUSE WE BELIEVE THAT IMPORTS MUST BE CONTROLLED QUICKLY AND EFFECTIVELY, WE FAVOR THIS PROPOSAL. IN ADDITION, HOUSE WAYS AND MEANS TRADE SUBCOMMITTEE CHAIRMAN SAM GIBBONS (D-FLORIDA) HAS INTRODUCED H.R. 2451, WHICH WOULD APPLY COUNTERVAILING DUTIES TO IMPORTS IN THE EVENT OF PROVEN NATURAL RESOURCE SUBSIDIZATION. WHILE WE SUPPORT THIS PROPOSAL, IT IS NOT A TIMELY SOLUTION TO THE PROBLEM OF INCREASED GASOLINE IMPORTS. IT WOULD ADDRESS THE LONG TERM PROBLEM OF DISCOUNTING, BUT DOES NOT OFFER THE IMMEDIATE HELP NEEDED BY THE DOMESTIC REFINING INDUSTRY.

THE INDEPENDENT REFINERS COALITION ESTIMATES THAT, AS OF MAY 1, 1985, UNITED STATES REFINING CAPACITY WAS 14.5 MILLION BARRELS PER DAY. IT IS OUR OPINION THAT THIS CAPACITY IS ALREADY LOWER THAN NECESSARY FOR DOMESTIC AND MILITARY NEEDS. THE DOE REPORTS AN ADDITIONAL 1.2 MILLION B/D OF IDLE CAPACITY LISTED AS OPERABLE. THE NATIONAL PETROLEUM COUNCIL IS STUDYING IDLE REFINERY CAPACITY TO DETERMINE HOW MUCH OF THIS CAPACITY CAN BE RESTARTED WITHIN 30 TO 90 DAYS. WE BELIEVE THAT MOST OF THIS CAPACITY IS PAST THE POINT OF BEING QUICKLY RETURNED TO SERVICE. THEREFORE, WE BELIEVE THE INDEPENDENT REFINERS COALITION ESTIMATE TO BE REALISTIC. ANY FURTHER REDUCTION IN DOMESTIC REFINING CAPACITY WILL AGGRAVATE THE DEPENDENCE WE ARE CREATING FOR IMPORTED PRODUCTS.

IN ADDITION TO THE NATIONAL SECURITY ASPECT OF THE SHUTDOWN OF REFINERY OPERATIONS DUE TO INCREASED IMPORTS IS THE IMPACT ON THE DOMESTIC EMPLOYMENT. PETROLEUM REFINING IS NOT A PARTICULARLY LABOR INTENSIVE INDUSTRY. HOWEVER, LOSS OF JOBS DUE TO REFINERY SHUTDOWN IS NOT CONFINED TO THOSE DIRECTLY EMPLOYED IN THE REFINERY. THERE IS A SIGNIFICANT MULTIPLIER EFFECT IN THE LOCAL ECONOMY WHERE EACH DIRECT REFINERY JOB IS LOST. THE TEXAS DEPARTMENT OF WATER RESOURCES CONDUCTED A STUDY IN 1979 ON INDIRECT JOB LOSS DUE TO REFINERY JOB LOSS AND CALCULATED A MULTIPLIER FACTOR OF 13.3 INDIRECT JOBS PER DIRECT REFINERY JOB. A JUNE 1985 STUDY PERFORMED BY THE PACE COMPANY OF HOUSTON PROJECTED THAT IN THE ABSENCE OF TRADE BARRIERS IMPORTS OF REFINED PRODUCTS WILL RESULT IN THE SHUTDOWN OF OVER 1.4 MILLION BARRELS PER DAY OF REFINING CAPACITY IN THE U.S. BY 1990. THIS SHUTDOWN CAN BE EXPECTED TO RESULT IN LOSS OF 3,000 TO 4,000 JOBS DIRECTLY INVOLVED IN REFINING AND AN ADDITIONAL 39,000 TO 59,000 OTHER JOBS.

IN CONCLUSION I ASK FOR YOUR ASSISTANCE IN URGING CONGRESS AND THE ADMINISTRATION TO TAKE DECISIVE AND PROMPT ACTION TO CONTROL GASOLINE IMPORTS. THANK YOU FOR THE OPPORTUNITY TO HIGHLIGHT SOME OF THE REFINING INDUSTRY PROBLEMS AS THEY RELATE TO FOREIGN TRADE. I WILL BE GLAD TO RESPOND TO QUESTIONS YOU MAY HAVE OR SUPPLY DETAILED INFORMATION UPON YOUR REQUEST.

Mr. **Wright**. Thank you very much. We will take back to Washington your recommendations with respect to the legislation introduced by our colleague, Mr. Anthony, and also with respect to that introduced by Mr. Gibbons. I believe you have pinpointed a problem vital to our national security.

Thank you very much.

Mr. **Mahan**. Thank you

Mr. **Wright**. To my knowledge, we have three additional witnesses. I notice in the audience today two people who speak for a great many Texas laborers: Harry Hubbard, president of the Texas AFL-CIO is here, and we acknowledge your presence. And Frank Leigh, the regional director of AFL-CIO has been here; Frank is out now.

H.J. Weiler is vice president of governmental affairs for the Association of Commerce and Industry of New Mexico. He has come a long way and he has waited a long while. We appreciate your having come here to be with us, and we are anxious to hear from you.

STATEMENT OF H.J. WEILER, VICE PRESIDENT, GOVERNMENTAL AFFAIRS, ASSOCIATION OF COMMERCE AND INDUSTRY OF NEW MEXICO, ALBUQUERQUE, NM

Mr. **Weiler**. Thank you very much, Mr. Chairman and members of the committee. I will paraphrase my remarks in the interest of time.

I am the vice president of governmental affairs of the Association of Commerce and Industry. Every one of those lost jobs in the State of New Mexico are from companies who are members of my organization. So I have firsthand knowledge of what their problems are.

As you might know, or maybe do not know, the State of New Mexico is the largest producer of copper in the United States of America. We rank sixth or fifth in the production of natural gas and crude oil. We are probably first or second in the production of coal. We are the leading domestic producer of molybdenum in the United States and we were the largest producers of uranium in the United States. Needless to say, all of these organizations and their production have been adversely affected one way or the other by the influence of foreign imports.

Let me first address the potash industry. The potash industry, of course, is largely produced for the use of fertilizer. They have been tremendously impacted over the last number of years by a number of factors. Potash was first discovered in the State of New Mexico in 1925. It began its start-up production in 1931, and in 1966 it had 3,500 people employed in that industry in our State in seven mines.

Currently, there are 1,500 people that are employed and part of those 1,500 are on a part-time basis. Of the seven mines that there were, two of the major mines have closed down. Of the remaining five, they are on a curtailed production schedule, but they have implemented a very, very severe cost-reduction program in order to be competitive. One of the biggest problems is that in 1970 foreign imports exceeded domestic U.S. production for the very first time. They are now responsible for almost 90 percent of all the usage in the United States today.

The largest country from which we get imports is from Canada. Canada has vast reserves; in fact, they have the largest reserves in the known world, excluding Soviet Russia, whose reserves we do not know at the time

One of the biggest things is that potash is produced in these countries from nationalized organizations. Ownership in Canada is about 60 percent nationalized. Then you have the other countries that are producers of it, and they are totally nationalized. So what we are doing is facing a subsidized product coming into the United States in competition with our own domestic production. Currently, the cost of production in the Carlsbad area is $35 a ton. It can be imported into the United States for between $13 and $15 a ton. It is obvious that you cannot use that price differential in a depressed agricultural market such as we have in the United States today.

There have been petitions filed before the International Trade Commission of the U.S. Department of Commerce's International Trade Administration against those imports from the German Democratic Republic, Israel, Spain, and the U.S.S.R. None of them has prevailed.

One of the very difficult things as far as the industry is concerned is the additional environmental concerns which have been imposed on the producers in the United States. New Mexico has the toughest air quality act in the United States. We also have very stringent water control requirements. Both of these add considerably to the cost of production in our country. Those kind of restrictions do not apply to those manufacturers in foreign countries.

One of the companies estimated that their cost of environmental concerns alone is $1 million a year, both in the capital requirements and in the energy requirements for purposes of meeting those kind of environmental concerns.

The molybdenum industry. Moly is used extensively in the steel industry for the manufacturing of molybdenum steel—moly steel, as it is called. The reason it is used as an additive in steel production is because it has certain qualities, when blended with steel manufacturing, which causes it not to have the expansion and contraction propensities of ordinary steel. But what has happened, which you are well aware of, and which you have heard about today, is the curtailment to the steel industry. Molycorp spent $485 million over the last 3 years to make it the most modern production facility in the United States. As of this Friday—yesterday—they laid off 150 of their work force of a total of 800 because of the oversupply of that particular product.

Molybdenum is a byproduct of copper production. A lot of the countries that are sending copper into the United States are now putting in processes which separate out molybdenum in the copper extraction process, and, therefore, they can dump it for any kind of a price they wish because they are not allocating any costs or a negligible amount of cost to that particular production. It is not large, but, nevertheless, it has a substantial impact in terms of the export of molybdenum.

Copper. Copper, as I indicated, we are the largest producers of copper in the United States within our State. We had four companies. Out of the four, two are gone and two are left—Chino Mines and Phelps Dodge Corp. Between the two of them, in the last 4 years, they have spent $600 million to improve their capacity for the production of copper. The newest and latest facility is what is known as the electro-winning process. Scrap ore is now processed with the addition of sulfuric acid on the top of the dumps that leeches down through it, then goes into the electro-winning process whereby they insert very thin sheets of copper into this liquid. After a week of running it through these baths and the electro-process, it comes out as 99.9 percent pure copper. That copper can be produced at about 30 cents a pound. But the current price of copper—and copper is only sold on the world market. So that the London Metals Exchange sets the price, as does the New York Commodities Exchange [Comex], they set the price. So whatever that price is is what you have to sell it for or you do not sell it. That's the marketability of it.

The current cost of production in our State is about 28 cents below that price, so that we have got a 28 cents differential. I said "below;" I meant above. It costs us 28 cents more than what the market is right now.

As you well know, the advent of fiber optics, the changes in automobile manufacturing where you used to have about 45 or 50 pounds in an automobile, you probably now have 10 or 11 pounds of copper in an automobile today; smaller radiators, the changes in plastics, the use of aluminum in automobiles has tremendously affected the copper price. But the biggest problem is the dumping of copper in the U.S. markets. We have Zaire, we have Chile, we have South Africa that are sending imports into this country, all subsidized, all subsidized by their governments. And the reason they are doing it is because those governments lay more emphasis on employment practices than they do on economics and production. They just want to employ people. So, therefore, it does not make a bit of difference what they want to sell it for as long as they get any kind of price, and the government makes up the differential.

It is a critical material in terms of the United States, and we cannot afford, we just absolutely cannot afford, in terms of our defense programs, in terms of a lot of the other things that we use copper for in this country, to be solely dependent on the foreign sources. And that is what we are heading for, and we are heading toward it very very rapidly.

Uranium. Uranium, of course, was an industry which was started in Grants, NM. The first discovery was in 1950, the biggest time of production was in 1973. I could not help but compare Grants to the Miami, OK situation here.

Grants, in 1973, began with 3,000 people. It expanded to 10,000 people very very rapidly. Then it went "kerplunk." All of a sudden, it came back. And as it came back, and in 1979, they had 10,000 people employed in the uranium industry. Today, they have, I think, 14 or 15, is all. All of the mines, uranium mines in New Mexico are closed. There is a token operation by Homestake, which will close out in approximately 6 months. They have four miners and they have somewhere in the neighborhood of 15 or 18 other people in a mine that formerly used to employ about 700.

So here is Grants, NM, with 10,000 unemployed out of 13,000. So the Miami, OK situation is very very comparable to that community.

As to what was said before with respect to training programs, what is the use of training people when you don't have any place to put them after they're trained? They are locked into that area. The only savings they have is the home they own. And now they have no market for that. They cannot even move.

And remember, uranium miners are very highly skilled and very highly paid; not unusual for a lot of uranium miners to make $50,000 a year.

I submit to you, you would not want to make it that way. I have been in those mines.

But here is a critical, a critical material—uranium. We use it in nuclear warheads and the likes, and yet we are practically giving it away to a foreign market.

The semiconductor industry in our State has become very large. All of a sudden, it is on a big hold because of the Japanese dumping in the United States with respect to wafer chip manufacturing and things of that kind.

There have been a number of actions that have been recently brought by Intel and by the semiconducter industry itself that have made petitions before the International Trade Administration, the U.S. Department of Commerce, and the U.S. International Trade Commission. Those were just filed on September 30. I just got copies of all of their petitions and the information supporting those petitions, which I will be pleased to give to the committee. You can make whatever copies you would like, Mr. Chairman, if you would.

But I can also say this, that this has seriously affected a lot of the Grants people. We only live about 65 miles away. A lot of the Grants people were coming into the Albuquerque area and were being trained to work in the assembly lines with respect to that industry. And all the training and everything else has gone down the tube because now there is no opportunity for them, as the plant expansions are put on hold. Intel was planning a facility that probably would be about—oh, somewhere in the neighborhood of 600- or 700-employee facility. Our vocational training people put on programs to train them, and when they all got trained, nothing was there for them.

So I submit to you that New Mexico has their problems, along with everybody else, and we have nothing optimistic, necessarily, to give to the committee at this time. It is the foreign imports that have directly affected us. You can trace it directly to the impact of those imports.

[Testimony resumes on p. 96.]

[The prepared statement of Mr. Weiler follows:]

Prepared Statement of H.J. Weiler

I thank the chairman and members of this task force for inviting me to make a presentation today.

The Association of Commerce and Industry is a non-profit organization of six hundred business located state wide in New Mexico. We are in constant touch with our membership on matters of concern to them and as a result my presentation to you today contains facts and figures which have come directly from the affected industries. This report has been organized by various categories so that it is easier for the members to phrase questions, if they so desire.

Our state has been seriously and adversely impacted by a number of factors over which we have no control. Foreign imports have been the most serious of thes factors and the purpose of this report is to outline, in summary fashion, their impact on certain segments.

POTASH

The Carlsbad area is the location of potash production in New Mexico and the principal area of such mining in the U.S. (85%). In 1914 the U.S. was solely dependent upon Germany for this resource. There was an embargo placed upon the shipments to this country and where the price had been $35.00 a ton this escalated to almost $500.00 per ton in a short period of time. This is a graphic illustration of what can happen when our nation becomes totally dependent upon foreign imports.

In 1925 during exploration activities for oil and gas the first discovery was made of potash deposits in the Carlsbad area. Production started in 1931 and reached its peak in 1966 with the employment of 3500 people in direct production of potash. Currently there are 1500 now employed with periodic shutdowns of the production facilities because of excessive inventories. In Feb. 1982 National Potash Company of Freeport - McMoran Inc. closed permanently with the loss of 275 jobs and 210,000 tons of annual production. In January of 1983 Mississippi Chemical Company implemented an extended layoff of 250 people and are currently closed. Of the remaining 5 mines in the Carlsbad area four are on a curtailed production schedule of working 10 days and off 4. They have all implemented a severe cost reduction program to get maximum production at lowest cost. The axiom in the Carlsbad potash industry is expressed as "Clean, mean and very lean." This has caused substantial adverse economic impacts in the Carlsbad area of New Mexico.

In the years 1970-1971 foreign imports exceeded domestic U.S. production for the first time. In the mid 1960s Canadian production began and starting in 1966 their exports to the U.S. have been ever increasing to the extent that they now are responsible for 90% of all potash imports. The remaining 10% comes from countries such as Israel, East Germany and the USSR.

As a result of this import glut the U.S. currently is receiving 80% of its needs from foreign sources. 70% of this is from nationalized production. In Canada 60% of their total production is nationalized. As a result of this activity the price of product which was at $65.00 per ton has now seen market availability at $30.00 per ton in some spot price markets. A substantial reason is foreign nations continuing to produce inventories even at a loss in oversupply situations, because people employment is paramount and oversupply is of secondary concern. In the free marketplace an uneconomic producer will withdraw from the marketplace. This poses the additional problem of what happens to the remaining ore body reserve, which may be lost forever when start up costs and additional capital investment make such expenditures uneconomic. The production cost requirements in the Carlsbad area need $55.00 or more per ton to achieve any profitable price position.

Kerr McGee and AMAX filed petitions for countervailing and anti-dumping duties before the International Trade Commission and the U.S. Department of Commerce's International Trade Administration against potash imports from the German Democratic Republic, Israel, Spain and the USSR. They were unable to convince these bodies of their position.

One of the difficulties in maintaining this type of action is the fact concerning each of the foreign producers. Since, for example, there is no free market in the Soviet bloc the question of subsidization is difficult to prove. The same situation exists to a lesser degree with all other foreign producers.

The only reason that the U.S. production in the Carlsbad area has been able to partially compete is their historical marketplace based on geographical location and lower transport costs. This is a 11-13 state area including Arizona, Texas, New Mexico, Oklahoma, Missouri, Louisiana, Arkansas, and some of the states immediately adjacent to the Mississippi River. This is now being invaded by foreign imports using water routes into the Gulf and barge delivery from there. The geographical and transportation advantages are disappearing thus further eroding their markets in traditional areas of distribution.

To compound the U.S. problems are the vast reserves of Canada which are the largest in the world. They have a high grade which assists in lower production costs and are close to U.S. markets. Additional burdens which U.S. producers face are those connected with environmental concerns, primarily air and water emissions. You must understand that some of these requirements prevent fertilizer from being distributed over our desert areas. It is not only the initial capital investment required for these installations but one company expressed their annual cost as being in excess of $1,000,000.00 for maintenance and utility costs of this equipment.

It is easy to see that current U.S. policy offers little hope for the maintenance of our N.M. production. There has been no discussion in this presentation as to what the curtailment of this industry has meant to the other segments of the Carlsbad area. Without the substantial payrolls that are generated by this industry all other segments of the local economy are adversely affected. Retail sales are much lower, the service industries equally are reduced, supplies and equipment purchases, etc. are severely curtailed, the state, local and school district available revenues are reduced, so that higher taxes must be imposed on N.M. citizens to make up such losses. The domino effect is obvious. While the potash industry is the one directly affected all New Mexicans equally suffer.

MOLYBDENUM

Molycorp, located at Questa, N.M., just announced a layoff of 150 of it's employees from a total workforce of 800. There is a surplus inventory of this metal in the world and because of this condition the price of product is such that it is uneconomical to continue production at current levels.

Molybdenum is used extensively in the production of steel, and we are all aware of the U.S. condition in that area. Moly-steel, as it is called, is used in pipelines, drilling equipment and auto fabrication. It's use as a lubricant takes between 5 and 8 per cent of production. Some further use is in the oil refining process as a catalyst. It's effectiveness in steel usage is because of the little effect temperatures have on the finished product. Expansion and contraction are reduced to minimums.

There are no primary producers of molybdenum outside of the U.S. but foreign producers of copper have added circuitry to their production facilities and have it as a by-product. This allows great freedom in cost-allocation and they can show any numbers they want to establish a sales price. While this production is not as substantial as primary producers in this county it certainly has an affect in the market place.

U.S. facilities have the capability of producing 65-75% of the world's needs. Currently they are at 50%. One of the latest counties to put in molybdenum circuitry in their copper production is Mexico.

MOLYBDENUM

Molycorp, located at Questa, N.M., just announced a layoff of 150 of it's employees from a total workforce of 800. There is a surplus inventory of this metal in the world and because of this condition the price of product is such that it is uneconomical to continue production at current levels.

Molybdenum is used extensively in the production of steel, and we are all aware of the U.S. condition in that area. Moly-steel, as it is called, is used in pipelines, drilling equipment and auto fabrication. It's use as a lubricant takes between 5 and 8 per cent of production. Some further use is in the oil refining process as a catalyst. It's effectiveness in steel usage is because of the little effect temperatures have on the finished product. Expansion and contraction are reduced to minimums.

There are no primary producers of molybdenum outside of the U.S. but foreign producers of copper have added circuitry to their production facilities and have it as a by-product. This allows great freedom in cost-allocation and they can show any numbers they want to establish a sales price. While this production is not as substantial as primary producers in this county it certainly has an affect in the market place.

U.S. facilities have the capability of producing 65-75% of the world's needs. Currently they are at 50%. One of the latest counties to put in molybdenum circuitry in their copper production is Mexico.

Since Molycorp is the largest employer in their area, with significant payrolls, any curtailment is strongly felt. There are no other opportunities for employment except seasonal resort and ski operations.

COPPER

The production of copper in New Mexico comes primarily from the Grant County area. The two largest mines are operated by Chino Mines Company and Phelps Dodge Corporation. Two other copper producers are currently shut down.

The employment impact of these curtailments has been substantial, particularly in the Silver City area. Since copper is a commodity in world wide trade and is sold on the London Metals Exchange and the New York Commodity Exchange (COMEX) in the U.S. it must depend on world prices. Increased costs therefore cannot be passed on to consumers. If the market price is insufficient these costs result in reduced profits to stockholders or losses. The impact of foreign production is therefore of great magnitude in the setting of the day to day price of this commodity.

Even though there are indications that there is a world wide recovery in the economy, the copper industry continues in a crisis position. The development of plastics and fiber optics has had a substantial impact on the use of copper in the auto industry and in the field of communications.

Foreign imports, primarily from mines in Chile, Peru, Zaire, Zambia and other nations, which are heavily financed by the World Bank and the International Monetary Fund, have had a tremendous adverse impact on domestic production. The strong dollar has also contibuted to this situation. Compounding these adverse conditions is the heavy capital requirements needed to meet environmental requirements in both the mining and smelting of domestic copper. Current estimates place an added cost of approximately 15 cents per pound of production to cover these capital costs together with the energy and maintenance requirements of operation to meet these rules. Very few, if any, restraints are placed on foreign production.

Of equal importance is the higher grade of the ore bodies in a number of our foreign competitor's operations. A lower grade of ore requires substantially more mining costs in the hadling of much greater quantities of ore to produce a pound of copper. All of these factors add to the competitive picture of U.S. production.

The U.S. Copper industry has made the firm committment to stay in the market place by reducing costs through large capital expenditures on new and efficient production equipment. In New Mexico, over the last five years our producers have spent, or are in the process of spending, about $600 million in upgrading haul fleets, state of the art smelters, slurry lines, electrowinning facilities and concentrators. This has unfortunately resulted in a reduction in the workforce of about 1400 permanent employees for these two operations in New Mexico. The other two producers who are now closed employed an additional 850 people between them making a grand total of 2250 no longer employed in this inustry in our state. Nationwide over 10,000 jobs have been lost permanently. All of this is designed to meet the challenges of the international market place. Labor perfomance has been upgraded and production costs in the energy areas are being evaluated and more efficient fuel usage implemented.

The recovery of ore from waste dumps through the electrowinning process has significatntly and successfully reduced the per pound cost of production so that when blended with standard production copper the sales price becomes more competitive in the world market place.

page 3

Fortunately as the world inventories of high quality copper begin to shrink U.S. copper can come into play in once again replenishing those stock piles. Whether or not foreign production will escalate the subsidization they now enjoy by their respective nations remains to be seen. Their production was upped 16% in 1983, in a depressed market. It will equally be interesting to see if the cost cutting efforts of the American producers are sufficient to narrow the price gap so they can maintain a competitive world position despite all the significant factors against them.

The State of New Mexico granted the copper producers tax relief in the 1985 legislative session which will assist them to some degree over a period of 3 years. This amounts to about $1.5 million per year. It would be critical to the Grant County economy to lose the combined payrolls of these two companies in the amount of $62 million per year with the multiplier these monies generate. In addition there are purchases of supplies and services from New Mexico vendors which approximate $70 million annually. All of thes numbers indicate the great economic impact this industry has in New Mexico. It's further curtailment to any significant degree would be catastrophic. We cannot depend on foreign production of this most important strategic metal. Many areas of our national security depend on it's production and we must maintain our domestic supply availability in place.

URANIUM

The ore was first discovered in Grants, New Mexico in December 1950. The initial purchases of Uranium were made by the Atomic Energy Commission at set prices and a guaranteed market. At the time of that initial discovery Grants had a population of 3000 people. Within a decade it had exploded to over 10,000. In 1966 the government announced it's buying program was over and many small companies closed overnight. Some of the majors, Anaconda, Kerr-McGee, United Nuclear and Homestake Partners continued to operate.

In 1973 the oil embargo came on and the "energy crisis" hit and once again the industry skyrocketed. There were even projections of 100,000 population. In 1978, 15 companies were operating 39 mines. In 1979 there were 45 mines in production and production escalated to 15,306,368 pounds of "yellowcake" a year. Planned nuclear power plants and their uranium requirements were the cause of the spurt. Then in the same year the Three Mile Island event occurred. Within three years thereafter more than 100 power companies decided to cancel entirely or put on hold plans for nuclear generation.

The facts thereafter are startling. The price went from $48.00 a pound until in December of 1984 it was spot price quoted at $15.25 and that price holds now. In 1979 there were 800 drilling rigs exploring for uranium and in 1982 none were working. In 1979 the number of workers in the mines exceeded 8000 with 2000 plus in mine related industries.

While there are a number of reasons this inustry has not remained viable, in the opinion of all of the companies there have been certain government policies which have contributed in the main to it's demise.

page 2

Several law suits have been brought by New Mexico producers over the Department of Energy's enrichment contracts with utility companies, which the producers have recently won. Since the DOE is the exclusive producer of enriched uranium they alleged that the DOE policies were encouraging foreign imports to the detriment of domestic production.

The way this was brought about was that Congress mandated that the DOE could not lose any money in the operation. Since this was the mandate they began using cheaper foreign imports to supply the "yellowcake" in place of higher priced domestic production. The domestic producers require about $30.00 per pound to be viable. Foreign sources are furnishing this at $15-17 per pound. The principle suppliers are South Africa, Canada and Australia. Canadian sources are the largest suppliers. Since the Canadian government exclusively controls the supplies of uranium to fuel their nuclear power plants they can charge them any price they wish and then excess production can be marketed at whatever the traffic requires. The production from South Africa is totally subsidized and Australia has partial support from their government. All new long term contracts with users are now with foreign producers.

There is only one token operation remaining in New Mexico. Homestake is pumping the water from their mine shafts and extracting uranium from that de-watering process. They also employ about four miners to extract ore from a very high grade deposit. The balance of production is totally shut down. Since 1980 there have been 4316 active miners who are out of work permanently. Most of them have exhausted all extended benefits from their unemployment and have left the area. Since underground mining is a highly paid occupation this loss has be equally catastrophic to Grants and the state of New Mexico. Equally at stake is the viability of a critical material upon which the U.S. will now be exclusively dependent upon a foreign source to provide its needs. This is a national disgrace.

SEMI CONDUCTOR INDUSTRY

The newest expansion of this industry in New Mexico has primarily been located in Albuquerque, and adjacent Sandoval County. Several of the largest companies in the field have recently located production facilities there, notable amongst them being Intel, Signetics, Motorola and GTE Lenkurt.

Recent events have taken place which have seriously hampered the further expansion of these facilities and planned installations and expansions have been put on hold. It appears from documents that have been filed, on September 30, 1985 with the International Trade Administration of the U.S. Department of Commerce and U.S. International Trade Commission that imports from Japan are being sold in the U.S. at prices below fair value. Because of this severe price undercutting, certain sales of these products have caused a marked depression in the price in U.S. markets which precludes U.S. companies from profitability and threatens their long range competitiviness. This has had the effect in New Mexico of Intel curtailing its expansion plans for a new facility in Sandoval County and Monolithic Memories, a wafer fabrication plant, to place an indefinite hold on its construction of new facilities. Signetics has also had some curtailment in its operations.

The petition that was alluded to above is complex in nature and just what unemployment this problem has created in New Mexico would be difficult to assess. It goes without saying that it has certainly adversely affected expansions in any of the companies referred to above. With the other economic woes of New Mexico it has certainly had a deliterious impact.

Mr. **Wright**. You have given us a very vivid picture of what is happening in some of our essential and critical minerals and the ways in which foreign governments subsidize their exports have robbed us of our markets and of the economic viability of producing it.

I have been in Grants, NM, along with Bill Richardson, a Member of Congress; as well as some of the problem mining areas.

Mr. **Weiler**. Yes.

Mr. **Wright**. And I have seen firsthand the human tragedy.

Mr. **Weiler**. I did not address one of the other problems that the Congress will be facing, and I hope they will address it.

The problem in uranium was brought about by the DOE policy with respect to enrichment. The DOE is the exclusive agency and the exclusive producer of the enriched uranium. And what they did was. under the mandate of Congress, that they shall not loose money in that operation, they very recently decided that they are going to have to use imported uranium for purposes of being competitive in terms of their customers. And so what happened was that they started buying $14 and $15 uranium from foreign sources, processing it in the United States and using it in competition with domestic producers. Domestic producers have to get $30 to $35 a pound; yet, they are buying it on the spot market for $15 a pound. And our very own Government is in competition with us along with the foreign imports.

So that is currently being reviewed, as I understand it. They brought a lawsuit and they won it. So the Congress will be looking at that, and you will all have an opportunity of voting on that one.

Mr. **Wright**. We are grateful to you. And we appreciate your patience.

Mr. **Weiler**. Thank you very much, Mr. Chairman and members of the committee.

Mr. **Wright**. If our list is correct, we have two more witnesses and we want to hear both of them. They are from the local area. We have imposed upon them by asking them to wait until after the others from the outside, who came from some distance could be heard. If I am right, the only two remaining witnesses are Jimmy Lewis, president of UAW Bell Helicopter local, and James Chenoweth of the Lone Star Steel Co. in Dallas.

Are there other witnesses whom I have inadvertently overlooked?

If not, Jimmy Lewis, come forward and let us hear from you. We apologize that we have kept you waiting this long. But we are almost in your backyard, so maybe you will forgive us for that.

Mr. **Lewis**. It's Saturday. I didn't have anything else to do anyway. It's raining.

STATEMENT OF JIMMY LEWIS, PRESIDENT, LOCAL 218, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA, HURST, TX, ACCOMPANIED BY STEVE BECKMAN, UAW, WASHINGTON OFFICE

Mr. LEWIS. Mr. Chairman, members of the committee, my name is Jimmy Lewis. I am accompanied by Steve Beckman of our Washington office.

I am president of the local union which represents the workers of Bell Helicopter. I am also president of the State political action committee. I do appreciate the opportunity to appear before this committee today, this panel.

For several years now, we in the UAW have tried to convince Members of Congress and policymakers within the administration of the need to develop a trade policy to meet the needs of the American people. The sad fact is that we do not have such a policy. We have been swamped by trade problems in many industries, causing the continuing loss of millions of job opportunities and economic uncertainty for workers and communities. Still the President has not proposed an effective policy measured to deal with either this immediate trade emergency or the likely long term impact on our economy of his continuing commitment to free trade.

The expected $150 billion U.S. trade deficit for 1985 presents a crisis. The prospect of the deficit continuing to grow is frightening for our members and for other Americans.

In this region, the UAW of course represents autoworkers. You may be aware of the recent reports that the just completed model year set a sales record for the auto industry, breaking a previous high of 1978. Despite this, employment in the industry is way down and imports are way up in both cars and trucks, as compared to 1978.

The U.S. Commerce Department projected in April that auto imports could reach 4 million or 36 percent of total sales by 1988. Imports are expected to increase from Japan, Europe, Korea, Brazil, and Mexico. Auto parts imports, which have shot up in recent years, will continue to increase. While it is difficult to predict how costly all of this will be in terms of jobs, UAW economists estimate that a further 600,000 auto and supplier jobs could be lost by 1988, a decline of 37 percent from current employment.

We also represent thousands of workers in this area in the aerospace industry. In recent years, it has become obvious that other countries are anxious to grab a bigger piece of the international market for aircraft. Foreign governments contribute to these efforts in several ways. They have subsidized their domestic producers to make the price competitive with the leading U.S. companies, and also negotiated cooperative production arrangements with firms in other countries. In addition, governments have used their leverage as aircraft purchasers to force American firms and the U.S. Department of Defense to reserve part of the production of aircraft or parts for their own domestic firms.

These coproduction deals help create the capacity in other countries for competitive aircraft production.

Our trade statistics are beginning to reflect this problem. From 1980 to 1984, U.S. exports of aircraft and parts fell from $12.9 billion to $11.1 billion while imports grew from $1.9 billion to $3 billion. Our trade surplus over these 4 years dropped from $11 billion to $8.1 billion. We believe that trade problems in this industry will significantly worsen in the future unless some action to counter foreign government intervention is taken.

The Southwest has become a center for semiconductor and other electronic component production. The current difficulties in this industry are well documented, as are the charges against Japanese companies of dumping semiconductors in this country and restricting the market in Japan for U.S. exports. In this and other high technology industries, the restrictive policies of foreign governments and support for their domestic firms have hurt U.S. production and contributed to our trade deficit.

The agricultural and mining sectors of our regional economy have also been hit by trade. U.S. exports of cotton, coal, and lignite were lower in 1984 than in 1980, as slow growth abroad and the rising value of the dollar helped restrict demand for our production. The situation in the copper industry is especially discouraging. Subsidized output from other major producing nations has been an important factor in the difficulties faced in the United States. The President's refusal to provide relief for this industry only worsened an already bad situation.

The response of the administration to this trade emergency was long in coming and short on substance. The cases begun against unfair trade practices in Japan, the European Economic Community, South Korea, and Brazil and the longstanding cases against Japan and the European Community for which deadlines for resolutions were set only scratched the surface of unfair practices, which cost us jobs in this country. Tough talk by the President will not restore employment, only action will.

The changes in our trade laws and the additional Export-Import Bank funding proposed by the President will have only modest impact, and most of it will come several years from now. The agreement on currencies announced by the United States, France, Great Britain, West Germany, and Japan has given some hope for a reversal of the dollar's climb. Already, the dollar has traveled part of the route to an equitable level, but there is no reason to believe that the current trade imbalance will be more than minutely affected by the exchange rate changes thus far achieved.

The trade problems we face come from developed and developing countries alike, in older and the most modern industries. They are caused by unfair trade practices, by government directed economic development policies, by the high value of the dollar, by the restraint of wages in many countries, by repressive government labor policies. A trade policy that works for Americans must address all of these problems, but it must also address the emergency we face today, and start our trade deficit on the way down. The UAW has looked on many pieces of legislation which claim to set the right direction for trade policies. The one we believe best achieves this objection is H.R. 3035, the Trade Emergency and Export Promotion Act. This bill focuses on reducing our trade deficit with countries which unfairly restrict U.S. exports.

It also directs the Government to engage in international talks to eliminate the distortions in currency values which now exist by lowering the value of the dollar. By putting the U.S. trade representative in charge of deciding appropriate remedies for industries injured by trade in place of the President, the legislation would reduce the amount of political posturing in trade policy decisions.

To make the changes we think are due in U.S. trade policy, other legislation will be needed. But H.R. 3035 will help force our Government to begin to develop a trade policy which will benefit its citizens. And we do support our brothers and sisters in the garment industry wholeheartedly.

Thank you, Mr. Chairman, for giving us this opportunity.

[The prepared statement of Mr. Lewis follows:]

PREPARED STATEMENT OF JIMMY LEWIS

Mr. Chairman, my name is Jimmy Lewis. I am President of Local Union 218 of the UAW, which represents workers at the Bell Helicopter Division of Textron. I am also President of the UAW Community Action Program Council for the State of Texas. Our union is pleased to have the opportunity to appear before you and the other members of the House Budget Committee Task Force to share its views on international trade issues. We believe the field hearings you are conducting are of critical importance to the development of trade policies which will benefit the Southwest region and our entire country.

For several years now, we in the UAW have tried to convince members of Congress and policy-makers in the Administration of the need to develop a trade policy to meet the needs of the American people. The sad fact is that we do not have such a policy. We have been swamped by trade problems in many industries, causing the continuing loss of millions of job opportunities and economic uncertainty for workers and communities. Still, the President has not proposed effective policy measures to deal with either this immediate trade emergency or the likely long term impact on our economy of his continuing commitment to "free trade." The expected $150 billion U.S. trade deficit for 1985 presents a crisis; the prospect of the deficit continuing to grow is frightening for our members and for other Americans.

In this region, the UAW, of course, represents auto workers. You may be aware of the recent reports that the just completed model year set a sales record for the auto industry, breaking the previous high of 1978. Despite this, employment in the industry is way down and imports are way up in both cars and trucks compared to 1978. And the U.S. Commerce Department projected in April that auto imports could reach four million, or 36 percent of total sales, by 1988. Imports are expected to increase from Japan, Europe, Korea, Brazil and Mexico. Auto parts imports, which have shot up in recent years, will continue to increase. While it is difficult to predict how costly all of this will be in terms of jobs, UAW economists estimate that a further 600,000 auto and supplier jobs could be lost by 1988, a decline of 37 percent from current employment.

We also represent thousands of workers in this area in the aerospace industry. In recent years, it has become obvious that other countries are anxious to grab a bigger piece of the international market for aircraft. Foreign governments contribute to these efforts in several ways. They have subsidized their domestic producers to make them price-competitive with the leading U.S. companies and also negotiated cooperative production arrangements with firms in other countries. In addition, governments have used their leverage as aircraft purchasers to force American firms and the U.S. Department of Defense to reserve part of the production of aircraft or parts for their own domestic firms. These co-production deals help create the capacity in other countries for competitive aircraft production. Our trade statistics are beginning to reflect this problem. From 1980 to 1984, U.S. exports of aircraft and parts fell from $12.9 billion to $11.1 billion while imports grew from $1.9 to $3.0 billion. Our trade surplus over these four years dropped from $11.0 billion to $8.1 billion. We believe that trade problems in this industry will significantly worsen in the future unless some action to counter foreign government intervention is taken.

The Southwest has become a center for semiconductor and other electronic components production. The current difficulties in this industry are well documented, as are the charges against Japanese companies of dumping semiconductors in this country and restricting the market in Japan for U.S. exports. In this and other high technology industries, the restrictive policies of foreign governments and support for their domestic firms have hurt U.S. production and contributed to our trade deficit.

The agricultural and mining sectors of our regional economy have also been hit by trade. U.S. exports of cotton and coal and lignite were lower in 1984 than in 1980, as slow growth abroad and the rising value of the dollar helped restrict demand for our production. The situation of the copper industry is especially discouraging. Subsidized output from other major producing nations has been an important factor in the difficulties faced in the U.S. The President's refusal to provide relief for this industry only worsened an already bad situation.

The response of the Administration to this trade emergency was long in coming and short on substance. The cases begun against unfair trade practices in Japan, the European Economic Community, South Korea, and Brazil and the long-standing cases against Japan and the EC for which deadlines for resolution were set only scratch the surface of unfair practices which cost us jobs in this country. Tough talk by the President will not restore employment, only action will.

The changes in our trade laws and the additional Export-Import Bank funding proposed by the President will also have only modest impact, and most of it will come several years from now. The agreement on currencies announced by the U.S., France, Great Britain, West Germany and Japan has given some hope for a reversal of the dollar's climb. Already, the dollar has traveled part of the route to an equitable level, but there is no reason to believe that the current trade imbalance will be more than minutely affected by the exchange rate changes thus far achieved.

The trade problems we face come from developed and developing countries alike, in older and the most modern industries. They are caused by unfair trade practices, by government directed economic development policies, by the high value of the dollar, by the restraint of wages in many countries by repressive government labor policies. A trade policy that works for Americans must address all these problems, but it must also address the emergency we face *today* and start our trade deficit on the way down. The UAW has looked at many pieces of legislation which claim to set the right direction for trade policy. The one we believe best achieves this objective is H.R. 3035, the Trade Emergency and Export Promotion Act. This bill focuses on reducing our trade deficit with countries which unfairly restrict U.S. exports.

It also directs the government to engage in international talks to eliminate the distortions in currency values which now exist by lowering the value of the dollar. By putting the U.S. Trade Representative in charge of deciding appropriate remedies for industries injured by trade in place of the President, the legislation would reduce the amount of political posturing in trade policy decisions.

To make the changes we think are due in U.S. trade policy, other legislation will be needed. But H.R. 3035 will help force our government to begin to develop a trade policy which will benefit its citizens.

Thank you, Mr. Chairman, for giving us this opportunity to give our views on international trade, an issue we believe is of the greatest importance not only to our members in this region and throughout the union, but to all Americans.

Mr. **Wright**. Thank you very much, Mr. Lewis.

Some of the cosponsors of that particular piece of legislation have been here in this room today. We appreciate hearing from you, and thank you for your courtesy in waiting through this long period with you.

Mr. **Lewis**. Thank you.

Mr. **Wright**. According to my calculations, we have precisely 7 minutes remaining before our colleagues would have to leave to catch their plane.

Mr. Chenoweth is a friend of mine and a friend of all of us. He is the manager of international trade affairs for Lone Star Steel Co., an important company in our State, particularly in the district of our colleague, Jim Chapman, who has already spoken about Lone Star and its difficulties.

We welcome you here. Mr. Chenoweth, we hope it will be possible for you to summarize your message and give it to us as succinctly as you can.

STATEMENT OF JAMES W. CHENOWETH, MANAGER, INTERNATIONAL TRADE AFFAIRS, LONE STAR STEEL CO.

Mr. **Chenoweth**. Thank you, Mr. Majority Leader and members of the panel.

I have done just that; frantically editing. I hope you notice that we have submitted a full report, a full testimony. And what we are doing here is hitting the most important points as best we can. So if we lack a little continuity or something, pardon us, but it is for the sake of time.

Mr. **Wright**. We are grateful to you for your cooperation.

Mr. **Chenoweth**. The first thing I wanted to bring up was in relationship to your opening remarks, something that you said. You stated correctly that total steel product import penetration, as recent as 1979, had about a 15 percent penetration rate; but that in 6 short years, in 1985, it was up to 26 percent.

Now, I wanted just to compare that statistic with the situation of oil country tubular goods, the one portion of this total steel product. And that is that import penetration of foreign oil country tubular goods was around 5 percent in the early seventies; it soared to 41 percent in 1981, and this year it is over 60 percent. So you can see that the segment that we're talking about is far, far more impacted than is the total steel product situation.

Through a consistent scheme of subsidies for steelmaking plants and by predatory, illegal, destructive pricing practices, foreign governments and their producers have maintained and increased their market share here at the expense of our employees, and other employees, directly or indirectly associated with Lone Star Steel.

An important characteristic which causes oil country tubular goods to be uniquely sensitive to unfair trade is that it is a high value steel product, higher relatively speaking than other steel products. So when international trade relations make it necessary for steel producing nations to restrict overall exports, oil country tubular goods provide an especially attractive market. And what they are looking for, mind you, is we are not talking about profits—that is really not in their vocabulary—they are talking about maximum volume of dollars generated.

Lone Star and other pipe producers have filed many trade suits in which illegal dumping, illegal subsidies by the foreign producers was proven; we actually proved it. Some of these cases came out with as high a margin as 70 percent—that is, the illegally dumping or subsidizing to 70 percent of the value of the pipe.

Now, we withdrew those suits and did not pursue them in order to assist the administration in achieving the President's steel program, which intends to limit imports to the stated goal of 18½ percent import penetration again for all steel products. But even under the best of circumstances, the President's program will award the foreign producers more than 40 percent of the domestic oil country tubular goods market. So we are getting a very disproportionate consideration.

Now, today, Lone Star Steel has approximately 2,700 employees less than we did in 1982. Our salary work force has been cut in half. Considering the ripple effect, this means that our reduced operations have affected the jobs of over 10,000 Texans.

What is Lone Star doing to overcome the problems created by these unfair trade practices?

Mr. Gephardt and Mr. Wright both have alluded to this particular problem earlier. What does it take to make a domestic steel mill competitive? And that is what I am getting ready to describe to you, what Lone Star is doing and has been doing for that very point.

Since 1975, 10 years now, we have reinvested substantially all of our net profits, almost $600 million to continually modernize and improve our mill facilities, and expand our productline. We streamlined our operations, we have cut costs, we have reduced wages, we have changed procedures, and we now are a bare-bones, low-cost operation. We have a great, efficient, dedicated work force at Lone Star.

To answer Mr. Gephardt's question, we are competitive with any oil country tubular goods producer in the world. But we find it difficult to impossible to compete with the unfair trade practices of government-owned, government-subsidized, government-aided foreign producers.

There are specific trade issues which Lone Star Steel Co. believes merit the particular attention of this panel today; two in particular. First, we are concerned about the effectiveness of the President's steel program announced in October 1984. Under this program, the United States has negotiated voluntary restraint agreements with 15 importing countries. And as a result of the limits that are posed on those particular countries, which are subject to those agreements under the program, all other countries have begun to fill the void. Those so-called noncovered countries have increased their cumulative market share of oil country tubular goods from 6½ percent to over 11 percent during the President's program. They have almost doubled their import market share; which means that the President's program becomes a transferrence of market share—pure and simple.

How long do you think the countries are going to stand for that? We are concerned about the President's program.

Now, Congressman Jim Chapman, who represents the first congressional district in which our mill is located, has exercised great leadership in this issue by introducing legislation designed to limit the increasing imports from the noncovered countries. The introduction of this bill, H.R. 3459, has already had a positive impact on our Government's efforts to negotiate a solution to this problem; and he described that earlier to you this morning.

We at Lone Star are extremely grateful for Mr. Chapman's leadership on that issue, and we hope that the members of today's panel will consider lending their support to his efforts.

Another matter of concern at Lone Star is the current negotiations with the European community to extend the carbon steel arrangement. The carbon steel arrangement is all other steel products, all steel products arrangement; which will otherwise expire on December 31, 1985. Notice in our transcript that there is a typo; it ends the end of this year. They are negotiating today. The negotiations are supposed to be over October 31; don't hold your breath.

It is expected that these negotiations will also include a proposed extension of the pipe and tube arrangement beyond its current expiration date, December 31, 1986—next year; that is correct. We urge our negotiators not to agree to a weakening of the pipe and tube arrangement in this context. The United States already made significant concessions in the terms of the arrangement earlier this year when it was renegotiated following the November 1984 embargo of EC pipe and tube products.

We cannot continue to lose our domestic markets. We must preserve our basic industries, but we in industry can do only so much. We cannot fight governments. Our Government must aggressively pursue a program of fair trade. There are various legislative proposals being discussed, reviewed, praised, and, yes, even condemned at this moment in Washington. We need the help of the Congress and the administration to bring about fair trade to the domestic steel industry.

In closing, I would like to assure the panel that Lone Star Steel is committed to returning to full capacity and to full employment. We are here to stay. We will continue to take whatever measures are necessary to ensure that we are fully competitive with any other manufacturer of oil country tubular goods, foreign or domestic. We are anxious to cooperate in any way we can with Congress and executive branch policymakers to help bring about their fair trade. We are asking for neither Government subsidies, Government loans, nor Government guarantee, but we are asking for fair trade. We are asking for a fair shake, and we are asking that our trade laws begin to be vigorously enforced by our Government.

Thank you again for giving me this opportunity.

[Testimony resumes on p. 110.]

[The prepared statement of Mr. Chenoweth follows:]

PREPARED STATEMENT OF JAMES W. CHENOWETH

Good Morning, Mr. Majority Leader, and members of the panel, my name is Jim Chenoweth and I am Manager-International Trade Affairs for Lone Star Steel Company. I am very pleased to appear before you today to discuss the impact of imports on Lone Star Steel. I thank you and other members of the Budget Committee for providing us this opportunity.

Lone Star Steel is a manufacturer of oil country tubular goods, known in the trade as OCTG. This high value steel product is used in oil and gas production and consists of casing, tubing, and drill pipe. Our mill is located in Lone Star, Texas, and our Executive Offices are in Dallas.

Today the company employs a total of about 4,000 people. The company has a strong commitment to preserving its position in the market place and the jobs of its employees. However, in spite of extensive efforts by the company and its employees, we have lost in excess of 2,700 jobs over the past four years. Much of this decline in employment is directly attributable to a flood of unfairly traded, imported OCTG.

Since its beginning as a steel pipe supplier in the early 50's Lone Star Steel Company had never shut down its steel making facilities until August, 1982. Dumped and subsidized imports were a primary cause of this drastic action. When the great drilling boom o 1981 fell from a high of 4,500 operating rigs to its current level of around 1,900, domestic steel companies were forced to curtail and discontinue operations because of high levels of inventories of OCTG caused mainly by the flood of imports from foreign producers. We domestic producers had no other recourse than to stop operations and lay off workers. The foreign producers continued to ship at relatively high levels, gaining more and more market share through unfairly traded OCTG. As a result, import penetration by foreign material soared from around 5% in the early 1970's, to 41% in 1981, and to over 60% earlier this year. The foreign producers had unfairly taken about 2/3 of the domestic market.

With our facilities located in the middle of the largest market area in the world for OCTG, with our reduced costs, with our dedicated labor force, and with an aggressive marketing program, we can compete against foreign OCTG manufacturers. We can not, however compete effectively against foreign governments. Through a consistent scheme of subsidies for steelmaking plants, and by predatory, illegal, and destructive pricing practices, foreign governments and their producers have maintained and increased their market share here at the expense of our employees, and other employees directly or indirectly associated with Lone Star.

I think it is worth noting that many of the competitor countries have no domestic OCTG market of their own. Many developing countries have built unneeded steel plants, in many instances with American financial help, as a flagship of industrial development.

During the oil drilling boom mentioned earlier, the U.S. market could absorb some of this excess capacity. Today, with the lower rig count and the decreased market price, we are paying to keep those foreign plant open with U.S. jobs.

An important characteristic which causes OCTG to be uniquely sensitive to unfair trade is that it is a high-value steel product. When international trade relations make it necessary for steel producing nations to restrict overall exports, OCTG provides an especially attractive market. Because of the high value of OCTG, many of our trading partners are tempted to divert trade to OCTG and similar products in order to maximize the profits from their exports.

Lone Star and other pipe producers have filed many trade suits in which dumping and subsidies by the foreign producers was proven, some as high as 70% of the value of the pipe. We withdrew our suits to assist the Administration in achieving the President's steel program limiting imports to the stated goals of 18.5% import penetration on all steel products. But even under the best of circumstances, the President's program will probably award the foreign producers over 40% of the domestic OCTG market.

What are the results of this? In 1982 we shut down our steel facilities and laid off approximately 4,000 employees. This had a tremendous adverse effect since we were the largest employer with the largest payroll in the area. Long-time employees were without work; car payments and mortgage payments were missed. Our mill was down for 16 months. We have gradually restarted some phases of our operation, but we continue to operate at a relatively low level of capacity.

In 1983 we suffered an operating loss of over 100 million dollars. Since then our business has improved, reducing our operating loss in 1984 to approximately 8 million dollars. While we continued in a loss mode during the first six months of 1985, we are constantly striving to gain profitability.

Today we have approximately 2,700 employees less than we did at our peak operation in 1982. Our salaried workforce has been cut in half. Considering the ripple effect, this means our reduced operations have affected the jobs of over 10,000 Texans.

What are we doing to overcome the problems created by these unfair trade practices? Since 1975 we have reinvested substantially all of our net profits, almost 600 million dollars, to continually modernize and improve our mill facilities and expand our product lines. We have streamlined our operations, cut costs, reduced wages, and changed procedures---we are a low cost operation. We have a good, efficient, dedicated workforce at Lone Star. We are competitive with any OCTG producer, but we find it difficult and sometimes impossible to compete with the unfair trade practices of government-owned, government-subsidized, and government-aided foreign producers.

Lone Star has also expended a great deal of effort to cooperate with congressional deliberations on trade legislation. We are grateful for the assistance last year of the entire Texas delegation, and many others, in passing legislation which brought about the enforcement of the previously unenforceable U.S./EC pipe and tube arrangement.

There are additional trade issues which Lone Star steel believes merit the attention of this panel today.

First, we are concerned about the effectiveness of the President's Steel Program announced in October, 1984. Under this program the U.S. has negotiated voluntary restraint agreements with 15 importing countries. The goal of the program is to reduce import penetration of the U.S. steel market to 18.5 percent. As a result of limits imposed on those countries which are subject to agreements under the program, other countries have begun to fill in the void. Those so-called "non-covered countries" have increased their cumulative market share of OCTG from 6.5 to over 11 percent since the inception of the President's Steel Program. Congressman Jim Chapman, who represents the First Congressional District, where our mill is located, has exercised great leadership on this issue by introducing legislation designed to limit the increasing imports from these "non-covered countries." The introduction of this bill, H.R. 3459, has already had a positive impact on our government's efforts to negotiate a solution to this problem. We at Lone Star are extremely grateful for Mr. Chapman's leadership on this issue, and we hope that the members of today's panel will consider lending their support to his efforts.

Another matter of concern to Lone Star Steel is the current negotiations with the EC to extend the Carbon Steel Arrangement, which will otherwise expire on December 31, 1986. It is expected that these negotiations will also include a proposed extension of the pipe and tube arrangement beyond its current expiration date of 12/31/86. We urge our negotiators not to agree to a weakening of the pipe and tube arrangement in this context. The U.S. made significant concessions in the terms of that arrangement earlier this year when it was renegotiated following the November, 1984 embargo of EC pipe and tube products.

We can not continue to lose our domestic markets. We must preserve our basic industries. We in industry can do only so much. We can not fight governments. Our government must aggressively pursue a program of Fair Trade. There are various legislative proposals being discussed, reviewed, praised, and, yes, also condemned, in Washington today. We need the help of the Congress and the Administration to assure Fair Trade to the domestic steel industry.

In closing, I would like to assure the members of this panel that Lone Star Steel is committed to returning to full capacity and full employment. We will continue to take whatever measures are necessary to ensure that we are fully competitive with any other manufacturer of OCTG, foreign or domestic. We are anxious to cooperate in any way we can with Congress and executive branch policy makers to help bring about fair trade. We are asking for neither government subsidies, government loans, nor government guarantees. But we are asking for fair trade, a fair shake, and that our trade laws be vigorously enforced by our government.

Thank you again for giving me the opportunity to present Lone Star Steel's views.

Mr. WRIGHT. Mr. Chenoweth, thank you. You have been concise, and for that, we appreciate your forebearance.

With respect to one of your requests that some of us on this panel consider lending support to Jim Chapman's efforts on H.R. 3459, extending the limits to those noncovered countries, I hope Mr. Chapman will put my name down as a cosponsor.

Mr. CHENOWETH. Thank you kindly. We appreciate that.

Mr. WRIGHT. Thank you.

I think this has been a very comprehensive set of testimony today. I do not know of any other hearing, surely none has occurred in recent times in the Southwestern part of the United States which has been so broad in its applications to various facets of American industry and American jobs, American business and America's security as this one today. For that, I am grateful and I know the panel is grateful to all of you who have come and shared with us so fully and freely of your own experience as well as of your own observations; you have brought your own knowledge and feelings.

If there are other comments, we would entertain them at this time, otherwise, we will——

Mr. CHENOWETH. Mr. Congressman, may I make one last remark? That is, there has been in the papers, there has been in trade journals, et cetera, that in the last few weeks, there has been a calming down or a cooling off of the trade issue. And I think between—on the Hill, there may have been a slight cooling off. But don't, please, don't mistake that or think there is a cooling off in the country. I think it is by far the most important issue; it goes beyond the tax, the budget, and everything else as far as being on the minds of the population. And what might be cooling off on the Hill is red hot out here.

Mr. WRIGHT. Mr. Chenoweth, we have been made aware of that today, had we not already been aware of it. Some of us are and increasingly so. That is one of the reasons for this hearing, as well as the hearing to which Mr. Alexander alluded earlier, the one held last week in Boston for the Northeastern part of the United States. It may seem at times, due to the somewhat whimsical changes in those things that seem to be considered newsworthy on a day-to-day basis by the media that this is cooling off. We intend to keep the heat on because we know it is important to the Nation and to the American people.

Someone facetiously, half jokingly suggested that our hearings today would have been much more widely noted if we had been talking about drugs or if we had been talking about AIDS, the disease; or if we had been struggling with something else that occupies the current faddish attention of the media.

But I want to express our gratitude and our appreciation to the Dallas Morning News and the Dallas Times Herald and to KRLD for having been here and having covered these hearings. We think that it is a matter of vital concern and immediacy and of urgent importance to the United States of America and to all of our people. For that, we will keep working on it.

Mr. CHENOWETH. Thank you kindly.

Mr. WRIGHT. Thank you. And thanks to all for having come. We stand adjourned.

[The following additional material was submitted for the record:]

SOUTHWEST REGIONAL JOINT BOARD,
AMALGAMATED CLOTHING & TEXTILE WORKERS' UNION, AFL-CIO, CLC,
San Antonio, TX, October 19, 1985.

Hon. MIKE LOWRY,
Chairman, House Budget Committee, Task Force on Economic Policy,
Rayburn House Office Building, Washington, DC.

DEAR CONGRESSMAN LOWRY: We welcome the opportunity to present the attached information relating to the impact of the federal trade deficit on textile and apparel jobs in the Southwest.

Since 1980 as a result of an average import growth rate in the textile and apparel industry of 19% anually: 250 plants have closed; 300,000 textile and apparel workers have lost their jobs; 26,000 Texas textile and apparel workers have lost their jobs; and Data Resources, Inc. says if the import growth rate continues at 15% the federal budget deficit will increase by $24 billion.

For key information in this presentation relating to the DRI study, see page 3.

Again thank you for inviting our participation.

Sincerely,

JOAN SUAREZ, *District Manager.*

STATEMENT FOR HOUSE BUDGET COMMITTEE, TASK FORCE ON ECONOMIC POLICY, SUBMITTED ON BEHALF OF THE AMALGAMATED CLOTHING & TEXTILE WORKERS' UNION, AFL-CIO, BY JOAN SUAREZ, MANAGER, SAN ANTONIO DISTRICT JOINT BOARD, ACTWU

Imports are destroying the American textile and apparel industry. Imports have cost the jobs of hundreds of thousands of textile and apparel workers and are threatening the jobs of 2,000,000 more men and women who now work in the industry.

These workers are overwhelmingly women and minorities; blacks, Hispanics and Asians. Only half have completed high school, and a high percentage are non-English speaking. A large share are located in rural areas where there are few employment alternatives. Their livelihoods will crumble if America's textile and apparel industry is allowed to crumble.

Since 1981, textile and apparel imports have doubled and now control over 50% of our market. 300,000 textile and apparel workers have lost their jobs since 1980 and 250 plants have closed.

We have just recently concluded a survey of textile and apparel plants in Texas. In 1980 there were 81,000 textile and apparel workers in Texas. Today there are 55,000. 26,000 textile and apparel workers in Texas have lost their jobs. Closed apparel factories and textile mills are a reality in Texas communities from one end of the state to the other. And where factories haven't closed, lay-off and reduction in workforce continues to force workers to the unemployment line.

In the first ten months of 1985 the Texas toll has been incredible.

Burlington Mills in Post, Texas—closed.

Haggar Mfg. in Corsicana and Waxahachie—closed.

Levi Strauss distribution centers in Amarillo and Waco—closed, bringing the total number of Levi facilities closed in Texas since 1980 to eight.

Texas Apparel Co. in Del Rio—closed.

Over 3,000 textile and apparel workers are out of jobs in connection with these closings alone and this is just a partial list.

In each of these instances, these companies provided a major payroll for the communities in which they were located. These were not "johnny come lately" relationships—most of these companies had been in operation in these communities for over twenty-five years. Company and worker taxes paid for schools and public services, retailers and service industries depended upon these payrolls for their continued survival. In each of these instances, these communities have suffered a long-term economic blow of major proportion, in some cases compounded by additional plant closings in other manufacturing industries.

An independent study by Data Resources, Inc. estimates that an additional 1,890,000 workers in the textile and apparel and related industries will lose their jobs by 1990 if something isn't done to regulate import growth.

According to DRI if the annual import growth rate of 15% is allowed to continue, it will take its toll on the American economy in the following ways:

947,000 jobs will be lost in the domestic textile and apparel industries.

943,000 jobs will be lost in other industries due to the "ripple effect".

The federal budget deficit will increase by $24 billion.

The U.S. merchandise trade deficit will increase by $21 billion.

Disposable income will be lower by $19 billion.

Personal consumption expenditures will be lower by $8 billion.

The Gross National Product will decline by $40 billion.

Corporate profits will decline by $10 billion.

As indicated, the DRI estimate was based on a 15% import growth rate. In fact over the last 4 years apparel and textile imports have averaged a 19% growth rate.

Yet there is a segment of the American retail industry whose only interest in an article of clothing seems to be in the depth of its pockets. Having enjoyed huge profits from the combination of low-wage imports and the higher mark-ups associated with foreign-made goods, these retailers are mounting an all-out effort to hold on to those big profits—no matter how many Americans have to lose their jobs in the process.

In talking about imports with our Texas members during these past months, we discovered that like most American consumers there was general belief that since imports could be produced at "cheaper" cost, then those same imports must be less expensive to buy than American-made goods.

We asked groups of our members in communities as diverse as San Antonio, McAllen, Harlingen and Tyler to conduct surveys in local retail stores—K-Mart, Montgomery Wards, Sears, J.C. Penney—where most of our members shop for clothes. They returned from those shopping expeditions absolutely amazed to find imported goods selling for exactly the same price as the comparable American-made item. In some instances the American-made item was actually cheaper in price.

The simple fact is that retailers have not passed the "savings" on imported goods along to the consumer. Instead retailers/importers attach a much higher mark-up to foreign goods and enjoy a larger profit.

But consider the long run. Within hours of the import-caused bankruptcy of America's last surviving velveteen manufacturer, Japan announced a 33% increase in the cost of imported velveteen. What do you think will happen to the prices of other textile and apparel products if our domestic manufacturing base disappears and foreign suppliers control our market?

Newspaper headlines a week ago were proclaiming "House Approves Trade Bill, But Margin May Not Beat Reagan Veto". The headlines, of course, referred to the

Textile and Apparel Trade Enforcement Act which passed the House of Representatives by a vote of 262 to 159.

While several major and important trade bills, including the Bentsen-Rostenkowski bill, are still being considered by the Congress, the only bill which can have a major impact on the textile and apparel industries is the Textile and Apparel Trade Enforcement Act.

We urge your continued support. The jobs of two million Americans depend upon it.

UNITED RUBBER, CORK LINOLEUM &
PLASTIC WORKERS OF AMERICA, AFL-CIO, CLC,
Oklahoma City, OK, October 18, 1985.

Hon. MIKE LOWRY, M.C.,
Chairman, House Budget Committee, Task Force on Economic Policy,
Rayburn House Office Building, Washington, DC.

DEAR SIR: It is a privilege to have this opportunity to present to you and the Task Force on Economic Policy the facts regarding plant closures in the tire industry. I am representing the United Rubber Workers as Director of District No. 3, which includes a territory of 14 Western states.

We are pleased our U.S. Congress is recognizing the seriousness of the problem of plant closures and the hardships endured by the people.

Enclosed is a list of U.R.W. Union tire plant closing from 1973 to the present. This list shows there were 45,292 employees working in 1970; but by the time the plants closed, only 28,867 of them were still working and subsequently lost their jobs also.

Where are these people now? Some are working part-time jobs at minimum wage and have lost their homes, life savings, marriages, and much more. Some shuffle homeless around the country.

The loss of American workers' jobs by plant closures has a chain reaction effect that causes the loss of other jobs in construction, supply, and service industries, which weakens our whole economy.

These effects of lost jobs on the American people are stressed in the statements made by the United Rubber Workers International President Milan Stone in the enclosed News Release and in the *Akron Beacon Journal* article, "More Upheavals Predicted for Nation's Tire Industry," which is also included with this letter.

With U.S. plants that are closed, these corporations are no longer paying into Social Security their matching contributions. Americans are being deprived of their jobs and their retirement expectations from Social Security.

The President and Congress have allowed tax advantages for many corporations closing plants within these United States, and these U.S. companies are using the tax "write-offs" to subsidize their exodus from our country to foreign countries, taking our jobs with them.

Could this be part of the corporations' strategy to compete with the effects of imports flooding this country? The U.R.W. recognizes the need for strong curbs on imports to allow our American companies to operate competitively.

Last but not least, what about the effects of plant closures on our national defense? Without an ample supply of rubber and manufacturing facilities, we could find ourselves in a very vulnerable, dangerous position.

In summary, the problems created by plant closures, tax "write-offs" for foreign relocations, and flooding imports are a great injustice to the American working people; and corrective action is needed now.

The U.R.W. rrecognizes that their jobs, their retirement, and the responsible use of their tax dollars as being essential for their very survival, call for the Federal and State Governments to amend tax laws so that corporations forfeit existing tax gains related to plant closures, if they have built a plant or plants outside the United States or Canada following a plant closure.

The U.R.W. also submits and requests that tax credits, equal to what is currently benefiting companies in tax "write-offs" through closures, be used to update, modernize and re-equip aging outdated plants in the United States to save the jobs and Social Security contributions of American working people.

Further, the U.R.W. also requests import legislation be enacted to establish reasonable quotas fostering fair trade instead of "free" trade.

Thank you again for this privilege to present these facts, and I sincerely wish the Committee success in putting together solutions to stop these snowballing problems and strengthen the American economy.

Sincerely,

William Kitchens,
Director, U.R.W. District No. 3.

Enclosures.

URW UNION, TIRE PLANT CLOSINGS, 1973 TO PRESENT (UNITED STATES)

Year, company and location	URW local number	At closing, approximate number of employees	1970 approximate number of employees
1973: Gates, Denver & Littleton, CO	154	800	800
1975:			
B.F. Goodrich, Los Angeles, CA	43	732	608
B.F. Goodrich, Akron, OH (partial)	5	200	3,915
Goodyear, Plant 1, Akron, OH (partial)	2	1,300	7,943
1976: McCreary, Baltimore, MD	293	85	347
1978:			
Goodyear, Plant 2, Akron, OH	2	1,200	(1)
Firestone, Plant 2, Akron, OH	7	1,000	(1)
Mansfield Tire, Mansfield, OH	17	750	1,380
Mohawk, Akron, OH	6	300	550
Uniroyal, Los Angeles, CA	44	500	1,021
1979:			
Mohawk, West Helena, AR	539	470	603
Pennsylvania Tire (Mansfield), Tupelo, MS	845	700	500
1980:			
Goodyear, Los Angeles, CA	131	1,100	1,172
Lee Tire (Goodyear), Conshohocken, PA	785	850	520
1980:			
Uniroyal, Chicopee Falls, MA	11	1,300	1,632
Uniroyal, Detroit, MI	101	1,600	2,636
Firestone, Los Angeles, CA	100	1,205	1,307
Firestone, Salinas, CA	726	1,290	735
Firestone, Pottstown, PA	336	1,980	2,560
Dayton Tire (Firestone), Dayton, OH	178	1,240	1,308
Dayton/Seiberling (Firestone), Barberton, OH	18	840	925
1981:			
Firestone (Plant #1), Akron, OH	7	1,345	[1] 4,651
Armstrong Rubber Co., West Haven, CT	93	650	969
1982: General Tire, Akron, OH	9	1,018	1,866
1983: Firestone, Memphis, TN	186	1,680	2,714
1984: Goodyear, Jackson, MI	185	300	1,245
1986: B.F. Goodrich Co., Miami, OK (announced August 1985)	318	1,900	1,544
1986: Firestone, Albany, GA (announced Sept. 1985)	887	1,650	800
1986: B.F. Goodrich Co., Oaks, PA (announced October 1985)	281	882	1,041
Total		28,867	45,292

---

[1] Plants 1 & 2.

[From the United Rubber Workers International Union, AFL-CIO, CLC]

PLANT CLOSINGS

Akron, OH.—The current rash of plant closings in the tire industry is like a "growing cancer" that is devastating the nation's economy, Milan Stone, URW International President, said today.

"The injury created by plant closings which will affect more than 5,000 rubber workers is not just to us—it is also an injury to all Americans," Stone said. "When even one job is permanently lost, not only the employee and his or her family are affected, dozens of other persons suffer as it spins off into the rest of the economy."

"Injury to one IS injury to all," Stone emphasized.

Today, the URW was given a six-month plant closing notice for the Oaks, Pa. B.F. Goodrich plant which affects some 850 URW Members. On Sept. 18, Firestone announced the closing of its Albany, Ga. plant and the partial closing of the Des Moines, Iowa plant which will affect about 2,600 union members. On Aug. 23, B.F. Goodrich announced its intention to close its Miami, Okla. plant, affecting about 1,600 members.

"Except for the communities affected, perhaps these closings go unnoticed by the general public," Stone added. "But the closings are part of the growing cancer in the U.S. economy which—unless reversed—could turn us into a Third World nation of a few elitists and a very poor general public."

He stressed that the closings in the tire industry are only part of this cancer which is also spreading into auto, steel, textile and many other areas of the economy.

"The American Dream is becoming a nightmare for more and more Americans," Stone added, "and if you think what's happening to us can't happen to you, just wait."

"There is a solution to the American economic disaster," Stone emphasized.

"We must establish fair trade with our foreign trading partners and we must take the initiative to create a sensible and workable national industrial policy using the excellent resources in labor, management, government and in our institutions of higher learning."

"But what can individual Americans do until the slow-turning wheels of bureacracy deal with this national economic cancer?" Stone asked.

"It's as simple as this: BUY AMERICAN."

"As I said at our 50th anniversary celebration Sept. 12, if every American would buy American goods and every union member would buy only union-made goods, we wouldn't need trade laws in this country."

"For many, the injury is already done," Stone said. "But what about our children and our children's children? What horrible economic legacy will we leave them."

"So I call on the individual American to act now—to look for 'Made in USA' on everything that you buy," Stone declared.

"And I call on business and government to join with labor in implementing a National Industrial Policy to help our nation deal with the damage and additional threats to U.S. industry and to insure the development of new industries."

"Since 1979, some three to four million jobs have been lost or not created because of the imbalance of trade and, as President Reagan has proven, merely asking our foreign trading partners to stop their objectionable practices does not work."

"As the AFL-CIO Executive Council has stressed, the problem is not with other countries pursuing their national interest; the problem is in the U.S. failing to adopt policies in its national interest."

The URW and the entire labor movement are supporting a proposed trade bill which would tighten and streamline U.S. laws designed to relieve industries and workers injured by imports and to deal with unfair trade practices such as the "closed door" to American-made goods found in many foreign nations as well as tariff surcharges or quotas on countries that maintain an excessive trade surplus, among other proposals.

"In the main, more than 5,000 rubber workers will lose their jobs within the next six months because of imports and the lack of good, old Yankee ingenuity to come up with a plan—an industrial policy," Stone said. "These 5,000 workers will join millions of others so affected while others live under the misguided dream that 'high tech' will replace bread-and-butter jobs."

The URW Members affected by the announced plant closings are protected by contract language which gives the union the right to immediately begin negotiations in an effort to save the plants. If this is unsuccessful, the URW may negotiate for an orderly procedure for the plant closings.

In addition, the contract provides for additional economic protection such as unreduced pensions for persons with 25 years of service or those age 55 with five years of service. Those not eligible for pensions would receive health care and life insurance coverage for 24 months as well as six more months of health insurance coverage at a group rate.

"Without this language, workers could be given no advanced notice of plant closings," Stone said, "as previously was often the case." Such language was incorporated in URW contracts with the "Big Four" for the first time in 1979.

[From the Akron Beacon Journal Sept. 30, 1985]

More Upheavals Predicted for Nation's Tire Industry—Up to 6,000 Jobs Threatened by Imports, Sturdy Radials

(By Doug Oplinger)

The rubber industry is weathering a tumultuous period, not unlike the late 1970s, when there were wholesale plant closings and rivers of red ink flowing off corporate balance sheets.

Some tire companies that attempted to diversity are retreating to recover from unsuccessful forays. Others are continuing to do battle with the giants.

Already this year, more than 5,000 employees have been told their jobs will be eliminated sometime before mid-1986, and many more cuts are expected.

Saul Ludwig, industry analyst for the Cleveland investment firm Roulston & Co., has predicted that six tire plants will close in the next few years. Last week he said that as many as 6,000 industry jobs may be lost this year alone.

Why?

Blame it on imports, Ludwig said, but also attribute it to improved productivity, which means fewer workers are needed to make the same number of tires.

In addition, the industry is making longer-lasting radial tires. Radials that were sold a few years ago were expected to last at least 30,000 miles. Now, they will go anywhere from 40,000 to 60,000 miles. That will significantly delay the need for replacement tires for some motorists.

But the problems of the industry go beyond the tire business, as has been evidenced by recent actions. For example, B.F. Goodrich is writing off $365 million this year—more than half of that in the polyvinyl chloride business, where the company made substantial investments beginning in the late 1970s.

Goodyear, on the other hand this year sold the natural gas transmission lines that it acquired when it purchased Celeron Corp. in 1983. That business failed to generate the hoped-for profits because of lower energy prices.

CHANGES WERE FORETOLD

James L. Alexandre, tire industry analyst for Donaldson, Lufkin & Jenrette, said several months ago that attempts by rubber companies to diversity have produced "little more than dilution and disappointment for shareholders."

Alexandre said the ultimate effect of attempts to diversity "could well be a rededication to the tire and rubber business—just the opposite of those companies' original intentions."

As prior performers, Alexandre named the B.F. Goodrich investment in PVC; Goodyear's purchase of Celeron; GenCorp investments in Frontier Airlines and RKO General (a broadcasting and entertainment company); and Firestone's weaker-than-expected results fom its auto service centers.

Alexandre, like Ludwig, predicted that the companies will have to focus attention on their tire businesses to improve their profits.

Goodyear is taking the approach of outspending almost all of the competition combined for research and development and by investing heavily to expand capacity.

Firestone, which said it was operating its plans at 75 to 80 percent of capacity, will slash output by closing a relatively new plant in Albany, Ga., and eliminating all but agricultural tire production in Des Moines, Iowa.

B.F. Goodrich has said it will close a plant in Miami, Okla., cutting 1,900 jobs there, and a fabric plant in Exeter, Pa., eliminating about 160 jobs. Those actions took B.F. Goodrich out of the farm, radial truck and off-highway tire markets.

JOB LOSSES

Those actions alone will eliminate about 4,600 jobs. Additional small production-line shutdowns and salaried layoffs in Akron will easily add 1,000 more, bringing the total just a few hundred shy of Ludwig's estimate for 1985.

Cutbacks in the industry were a big topic at the National Tire Dealers and Retreaders Association convention in Atlanta this month. Dealers, of course, are concerned about the availability of tires from their suppliers, and wanted assurances from Firestone that it could produce the tires they needed.

In 1984, Firestone turned to B.F. Goodrich for 1 million tires when it could not keep up with demand during a surge in new car sales.

Goodyear and General Tire officials estimated that Firestone, with its recent realignment in tire production, slashed its radial passenger tire capacity more than 30 percent.

That reduction came on top Firestone's 41 percent reduction in tire capacity from 1979 to 1984, according to industry estimates.

Firestone has been bringing tires to the United States from overseas where they can be manufactured at a lower cost. (Goodyear also imported tires from its overseas plants in 1984 when demand for radials surpassed U.S. capacity.)

PROSPECTS FOR CLOSING

Meanwhile, rubber company officials at the convention speculated which plants may close in the next few years and which companies would be exiting tire markets.

Plants that manufacture bias tires still are the most vulnerable, as they were in the late 1970's when more than a dozen plants closed.

Among those most frequently mentioned as candidates for closing were a Kelly-Springfield plant in Cumberland, Md.; a B.F. Goodrich plant in Oaks, Pa.; and a General Tire plant in Waco, Texas.

The Waco plant has been on the verge of closing on a number of occasions, but workers there have accepted cuts in wages and significant changes in work rules to keep their jobs.

But Alexandre, in his recent analysis on industry capacity, said that General was the only company among the five largest to increase tire capacity from 1979 to 1984, and Waco is almost totally bias.

Kelly-Springfield's Cumberland plant in recent years has slashed its output of non-passenger tires while adding passenger tire production. Employees there accepted work-rule changes in a four-year contract to reduce production costs, resulting in some new production. That contract expires in 1989.

At the same time, Kelly is spending heavily to convert a bias passenger plant in Tyler, Texas, to radial tire production, and in Freeport, Ill., for agricultural tire production.

(Kelly officials denied that there were any plans to close Cumberland.)

B.F. Goodrich's Oaks plant is a radial passenger tire plant, but also is among the company's oldest facilities. B.F. Goodrich has taken the position that it will not comment on any speculation while it undergoes a major reorganization.

There was a degree of astonishment at Firestone's decision to close one of the newest tire plants in the industry. However, as one executive said, a newer plant will be easier to sell, particularly if Bridgestone and Dunlop are both showing an interest in expanding tire production in the United States.

One General official said he was amazed that B.F. Goodrich decided in August to leave the agricultural tire business, of which the company had a sizable share. That business has been depressed for several years.

However, competitors wasted no time in reacting. Firestone announced it would consolidate all farm tire production in Des Moines for efficiency reasons, and Goodyear's Kelly-Springfield subsidiary announced a "multimillion-dollar" modernization of its Freeport, Ill., plant, where it produces farm tires.

GOODYEAR ROCKS THE BOAT

Meanwhile, Goodyear upset the industry when it purchased three independent tire dealer chains in California and Colorado. Goodyear Executive Vice President James A. Bailey explained that the company felt its markets were weak in those areas, so it purchased the stores.

A General Tire executive called the move "arrogant," because his company and others had used those same dealer stores as an outlet for their tires, too.

Goodyear not only increased its own penetration, it also cut off the competitors, he complained.

Independent dealers were concerned about the nation's largest tire company becoming a major competitor. Bailey said, however, that Goodyear will resolve territorial overlaps between the independents and the new company stores.

Goodyear's purchase illuminated a major problem in the industry, one executive said: Goodyear has almost endless resources when compared with the others.

The company has spent hundreds of millions of dollars building super plants in Lawton, Okla., and Tyler, Texas, where it is automating as much of the tire production process as possible.

Those two plants will be the "low-cost sources of high-quality engineered products," Alexandre said, assuring the company's leadership in that area and allowing it to compete with low-cost imports.

On the other hand, Uniroyal, after fending off New York shark Carl Icahn, has loaded itself with $910 million in new debt, $750 million of which must be repaid by 1988. Competitors said that to repay that debt, Uniroyal will have to sell substantial assets. Because of $307 million in unfunded pension liabilities, most of which is in the tire business, the company will have difficulty selling that segment. So, Uniroyal is expected to continue in the tire business.

Meanwhile, Firestone is focusing on improving profitability in North America. Company Chairman John Nevin reportedly told dealers at the convention that the return on assets in the tire business is worse than investing in a bank passbook account.

By operating plants at near capacity rather than 75 to 80 percent, return on investment should improve. He also said several months ago that there is no reason the company cannot import its own tires from Spain, where it has been increasing capacity, or buy from other manufacturers to meet demand in the United States.

That position shocked some competitors who said they would never consider such a move.

But Alexandre warned that the rivalry may have to change if the domestic business is to survive.

He said it would appear "inescapable for some of the majors in the industry to merge, and ironically the only thing that seems to be preventing that in this age of consolidation is the genuine dislike most of the competitors seem to feel for each other."

10-YEAR PLANT CLOSINGS LIST

Here is the 10-year list of plant closings and the number of jobs lost at the time of each closing. (Some plants had already experienced layoffs prior to the shutdown.) Source: United Rubber Workers.

Year	*Plant*	*Jobs lost*
1975	Goodrich, Los Angeles	732
1975	Goodrich, Akron	200
1975	Goodyear, Akron Plant 1 (partial)	1,300
1976	McCreary, Baltimore, Md	85
1978	Goodyear, Akron Plant 2	1,200
1978	Firestone, Akron Plant 2	1,000
1978	Mansfield Tire, Mansfield, Ohio	750
1978	Mohawk, Akron	300
1978	Uniroyal, Los Angeles	500
1979	Mohawk, West Helena, Ark	470
1979	Pennsylvania Tire, Tupelo, Miss	700
1979	IRI, Louisville, Ky	300
1980	Goodyear, Los Angeles	1,100
1980	Lee Tire, Conshohocken, Pa	850
1980	Uniroyal, Chicopee Falls, Mass	1,300
1980	Uniroyal, Detroit	1,600
1980	Firestone, Los Angeles	1,205
1980	Firestone, Salinas, Calif	1,209
1980	Firestone, Pottstown, Pa	1,980
1980	Dayton Tire, Dayton, Ohio	1,240
1980	Seiberling, Barberton	840
1981	Firestone, Akron Plant 1	1,345
1981	Armstrong, West Haven, Conn	650
1982	General, Akron	1,018
1983	Firestone, Memphis, Tenn	1,680
1984	Goodyear, Jackson, Mich	300
1986	Goodrich, Miami, Okla	1,900
1986	Firestone, Albany, Ga	1,650

[Whereupon, at 1:08 o'clock, the task force adjourned.]

○